

Financial Communications LLC

# WHAT'S REGULATION GOT TO DO WITH IT?

#### SIMPLIFYING YOUR COMMUNICATIONS AS A BUSINESS STRATEGY

Josiah Fisk Writer | Principal

Lynn Riddle Creative Director | Principal FIREHOUSE | Financial Communications

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ACCESS TO OUR 12/4/01 "GET NOTICED" PRESENTATION

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# FIREHOUSE FINANCIAL: PROFILE AND APPROACH

# **Firehouse Financial Communications**

- Founded in 1997 by writer Josiah Fisk and designer Lynn Riddle
- Provide writing, design, production and consulting
- Specialize in simplified communications
- Experience working with many leading firms: State Street Research, Dreyfus, Neuberger Berman, Scudder, Kemper, SchwabFunds



### What Do We Mean By Clear Communication?

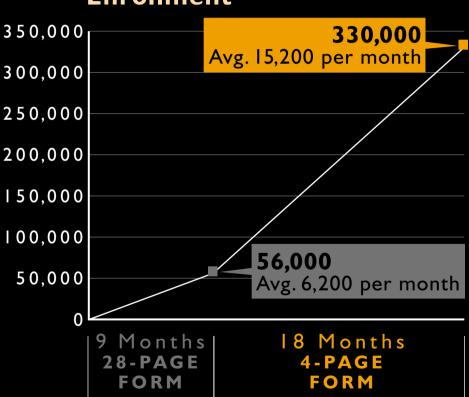
- Simplify, yes; dumb down, no
- Don't let major concepts get lost in the details
- Organize for the reader, not the writer
- Include "educational" information preferably alongside main text
- Most important of all: use the visual dimension

# CLEAR COMMUNICATION: How Much Difference Can It Make?

THREE "REAL WORLD" EXAMPLES

#### **EXAMPLE 1** Healthcare Money for Uninsured Children

- In California: 28-page application got 56,000 participants in 9 months
- Switched to 4-page form: enrollment rate more than doubled



#### Enrollment

Source: NY Times, 24 September 2000

#### EXAMPLE DISCUSSION

- California forfeited \$590 million (69% of its allotment); forms were a major factor
- 40 of 50 states lost part of their allotments
- \$1.9 billion returned to federal government



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#### EXAMPLE 2 Medical Mistakes

- Paralyzing drug and reversing agent used in surgery: same container, cap/label color, drawer
- Five of six surgeons at Denver hospital gave the wrong drug at least once



#### EXAMPLE 2 — DISCUSSION

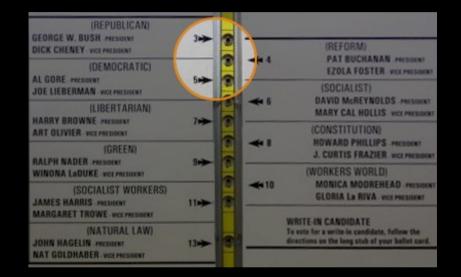
- Institute for Healthcare Improvement: doctors are "working under conditions that do not account for the fact that they are human"
- Hospital now color-codes, uses separate drawers
- No patients died but medical errors kill 44,000 to 98,000 a year in the U.S.



Source: NY Times, 5 December 1999

# **2000 Presidential Election**

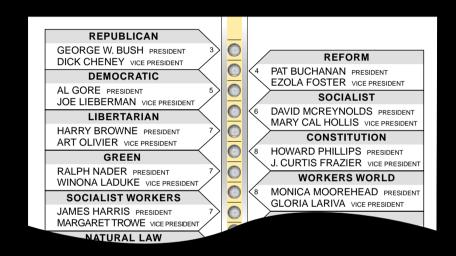
- Palm Beach County "butterfly ballot"
- Lines separating boxes led eye to wrong punch hole
- Over 19,000 ballots disqualified because of double votes for president; compare to 3,800 in senate race (no "butterfly")
- More votes for Buchanan than expected
- Election decided by 537 votes



Sources: Associated Press, 9 November 2000, NY Times, 12 December 2000 FIREHOUSE | Financial Communications

#### EXAMPLE 3 — DISCUSSION

- 2001: Vote-O-Matic machines outlawed in Florida
- With more focus placed on ballot design, most confusion likely could have been avoided



Source: Firehouse — possible design to make butterfly-style ballot less confusing

### **Special Circumstances Brought These Cases to Light**

- New administration's simpler forms boosted enrollment
- Chief surgeon broke medical "culture of silence"
- Close election led to scrutiny of ballots

But poor communication exists everywhere, and so do its effects — whether or not they are measured.

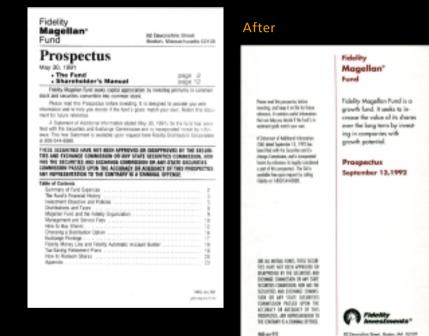
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## CLEAR COMMUNICATION AT WORK: MUTUAL FUND DOCUMENTS

### **Fidelity Investments**

- 1991 research: why did many people ask for sales kits but then fail to invest?
- One reason many cited: couldn't read prospectus
- In response, Fidelity developed the first simplified fund prospectus (1991-2)
- Done for business reasons

#### Before



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### **State Street Research**

- Old prospectus
  - -11,500 words
  - -First-year graduate school reading level

#### Before

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State Street Research

Money Market Fund

March 16, 1988

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Source: Mark Hochhauser, PhD

### **State Street Research**

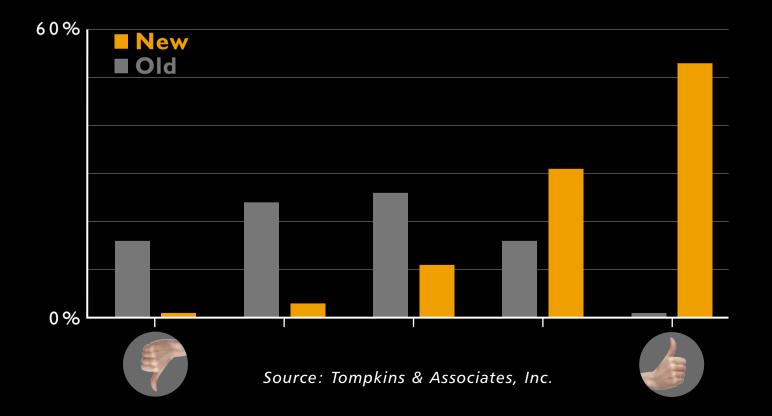
 Simplified prospectus
 -4,500 words
 -First-year college reading level



Source: Mark Hochhauser, PhD

#### **State Street Research**

• Broker reaction as tool for education, marketing, disclosure



#### **SchwabFunds**

#### • Prospectus front cover suffered from "information overload"

#### Before

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The Prospectus provides concise information that you should knew before investing. Please relain it for future seference.

The Statement of Additional Indomesian (S40), dated December 11, 1997, contains additional information and is incorporated by reference into the Perspectra. The S44 has been field with the Securities and Exchange Commission (SEC). The S4C matrixins a World Wide Web site OH(pr/Twww.sec.gov) that contains the S4L, natural incorporated by selewave and other information. The S41 is available without change by railing 1.400–433-4000 (1-803-91-250) for TDD users) or writing to 101 Montpartney Stevet, San Francisco, California 94104.

THE ALL MUTUAL PLINDS, THESE SIQUETHS HAVE NOT BEEN APPROVED SOLDEDISTICUTED BY THE SEC OR ANY STATE SIGUETIES COMMISSION, NOR HAS THE SEC OR ANY STATE SEQUETHS COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS, ANY REPRESENTATION TO THE CONTRACY IS A OWNANL OPTENSE.

#### SCHWAB EQUITY INDEX FUNDS

SCHWAB 1000 FUND\* SCHWAB 5&P 500 FUND

SCHWAB SMALL-CAP INDEX FUND®

SCHWAB INTERNATIONAL INDEX FUND®

> Prospectus December 31, 1997

#### Schwab 1000 Fund

(Schwab1000 Fund) seeks total return by tracking the performance of the Schwab 1000 Index\*.

Schwab S&P 500 Fund (S&P 500 Fund) seeks total return by tracking the performance of the S&P 500\* Index.

Schwab Small-Cap Index Fund (Small-Cap Fund) seeks total return

by tracking the performance of the Schwab Small-Cap Index\*.

Schwab International Index Fund (International Fund) seeks total return by tracking the performance of the Schwab International Index\*.

#### After

Prespectus

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Schwab S&P soo Fund

Schwab 5000 Fund\*

Schwab Small-Cap Index Fund\*

Schwab International Index Fund\*

As with all mutual lands, the Securities and Dechange Commission BED has not approved three securities or passed an whether the information in this prospectus is adequate and accurate. Anyone who indicates attenues is committing a fieldeat crime.



# Simplified Language

Existing language:

"The net asset value of the Fund's shares fluctuates as market conditions change." (13 words) Plain English:

"The value of the fund's shares will rise and fall." (10 words)

The new version is only slightly shorter in its word count, but it uses shorter, more familiar words, and focuses on conveying one key point. It also drops the unnecessary use of capitalized terms.

# Simplified Language

Existing language:

"If no selection is indicated on the application, that account will automatically be coded for reinvestment of all dividends and distributions in additional shares of the same class of the applicable Fund." (32 words) Plain English:

"Unless you give us other instructions, your distributions will automatically be reinvested in the fund." (15 words)

By changing from passive to active voice, the new version makes it clear that the sentence is talking about consequences of the reader's actions. Discussions with the client and their legal counsel also revealed that some details in the original were not necessary. FIREHOUSE Financial Communications

# WHY SIMPLIFY?

### **Reasons Companies Have Cited**

- Educate; help investors form realistic expectations
- Make people more comfortable with investing
- Demonstrate business ethics: good companies attract good customers

### **Reasons Companies Have Cited**

- Support corporate identity/brand
- Cut cost of multi-language documents
- Cut costs of printing, mailing and ongoing legal review
- Improve how documents adapt to the Internet
- Turn a "dead expense" into an asset

### What Are the Drawbacks?

- Initial costs higher for those who go first
- Value exists, but is hard to measure
- Fear of the unknown

# **First Firms Out Have the Most Opportunities**

- At the outset:
  - -you gain competitive advantages
  - -you have an excellent news story
  - -you take the lead in shaping industry standards
- If everyone copies you:
  -you benefit from higher industry standards
- If no one copies you:
  - -you still have the competitive advantages, cost savings

### **Potential to Set Standards — A Closer Look**

- Simplified prospectuses in US: Fidelity (1992) Vanguard (1994) John Hancock (1996)
- Showed SEC the industry was open to simplification



### **Potential to Set Standards — A Closer Look**

- Some Hancock innovations reflected in new SEC rules
- Industry leaders shifted focus from compliance to business opportunities









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