

MEMO# 32699

August 24, 2020

SEC Proposes Disclosure Reform - ICI Schedules Calls to Collect Member Views

[32699] August 24, 2020 TO: Accounting/Treasurers Committee

Advertising Compliance Advisory Committee

Closed-End Investment Company Committee

Disclosure Working Group

ETF Advisory Committee

Operations Committee

SEC Rules Committee

Small Funds Committee

Unit Investment Trust Committee

Variable Insurance Products Advisory Committee RE: SEC Proposes Disclosure Reform - ICI Schedules Calls to Collect Member Views

As we previously informed you the SEC has proposed comprehensive modifications to the mutual fund and ETF disclosure framework.[\[1\]](#) The proposal affects mutual fund and ETF shareholder reports, registration statements and delivery obligations. The proposal also affects registered investment company advertising.

Comments on the proposal are due to the SEC 60 days after the proposal is published in the *Federal Register*. We have scheduled a series of conference calls to discuss different aspects of the proposal. The first conference call will cover shareholder reports and Form N-CSR. Subsequent conference calls will address registration statement changes, delivery obligations, and advertising.

The first conference call on shareholder reports and Form N-CSR will take place on August 31, from 3:00 - 4:30 pm ET. This is a call for ICI members only. If you would like to participate in the call, please RSVP to Magen Dargon at magen.dargon@ici.org and she will send you an Outlook calendar invitation with dial-in information.

We request that you do not forward this calendar invitation to others. If you would like additional colleagues at your firm to participate in the call, please contact Magen and she will send the invitation to them directly. This will help us maintain the confidentiality of our call and allow us to monitor the number of attendees.

The proposal would require streamlined shareholder reports focused on fund expenses, performance, illustrations of holdings, and material fund changes. Much of the information

currently included in shareholder reports (e.g., financial statements) would be moved to Form N-CSR, posted to fund websites, and made available to shareholders upon request. Shareholder reports would become the primary disclosure document for existing shareholders and would be reduced to approximately three pages.

Fund prospectuses and SAs would continue to be updated annually, with prospectus supplements filed with the SEC to incorporate material changes. Under proposed Rule 498B funds would no longer send annual prospectus updates to shareholders. New investors would continue to receive a prospectus in connection with their initial purchase. The current prospectus fee table would be moved out of the prospectus summary and replaced by a more concise fee summary. Prospectus risk disclosure would be streamlined by requiring funds to focus on principal risks. Funds would be required to disclose their risks in order of importance, with the most significant risks appearing first.

Beginning in 2021, funds may satisfy their shareholder report delivery obligations by posting the shareholder report to a website address specified in a written notice mailed to shareholders. The proposal, however, would preclude mutual funds and ETFs from relying on Rule 30e-3 if adopted in its current form.

The proposal would amend the investment company advertising rules. The proposal would amend Rules 482, 433, and 34b-1 to require that investment company advertisements that provide fee or expense figures must also include certain standardized fee and expense figures. The Proposals would amend Rule 156 to provide factors an investment company should consider to determine whether representations about the fees and expenses associated with an investment in the fund could be materially misleading.

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endnotes

[1] The SEC proposal is available at <https://www.sec.gov/rules/proposed/2020/33-10814.pdf>. A mockup of a streamlined shareholder report is available at https://www.sec.gov/files/final_2020_im_annual-shareholder%20report.pdf. A chart illustrating the differences between the current disclosure framework and the proposed framework is available at <https://www.sec.gov/image/tailoredshareholderreports>.