

**MEMO# 21962**

November 19, 2007

## **SEC Proposal For Mutual Fund Disclosure Reform**

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TO: SEC RULES COMMITTEE No. 88-07 RE: SEC PROPOSAL FOR MUTUAL FUND DISCLOSURE REFORM

At an open meeting on November 15, 2007, the Securities and Exchange Commission voted to propose changes to the mutual fund disclosure regime. Following is a summary of the proposal, based on the presentations at the open meeting. We will provide more information, and seek your input, once the proposing release is available. Comments will be due 90 days after the proposal is published in the Federal Register. [\[1\]](#)

Under the proposal, funds will be permitted, but not required, to deliver to investors a short-form disclosure document (a “summary prospectus”) in place of the full prospectus. Funds will be required to advise investors receiving the summary prospectus that more detailed information (i.e., the full prospectus and SAI) is available online, and provide paper copies of the prospectus and SAI promptly upon request at no additional charge. Although use of the summary prospectus is optional, all funds will be required to include the information contained in the short document at the beginning of the full prospectus.

Timing of delivery: It appears from the meeting that, as proposed, a fund using the summary prospectus on a stand-alone basis will be required to deliver it with or prior to the transaction confirmation, as is currently required of the prospectus. We understand that the staff had considered changing this timing requirement, and requiring the summary prospectus to be delivered at or before the point of sale. Although the proposal apparently does not include such a requirement, the staff indicated that a separate rule proposal on point of sale disclosure may be released early next year.

Content: As proposed, the summary prospectus will contain many of the same elements as the risk-return summary section of the existing prospectus, with changes to the fee table to include breakpoint discounts and portfolio turnover rate. It also will include top ten portfolio holdings and some information about intermediary compensation. Several

Commissioners asked whether including portfolio holdings was necessary. We expect the SEC to seek comment on this issue.

Quarterly updating: The proposal will require the portfolio holdings and performance information in the summary prospectus to be updated quarterly. Several Commissioners questioned the need for quarterly updating, and asked whether the staff considered alternatives. We expect the SEC to seek comment on this issue, and on several possible alternatives.

Liability: The proposal envisions that the short-form document will be a summary prospectus under Section 10(b) of the Securities Act of 1933. The prospectus delivery obligation under Section 5(b)(2) of the Securities Act will be met if the summary prospectus is delivered and the full prospectus, SAI, and shareholder reports/ financial highlights are available online, subject to certain technological requirements. The summary prospectus also will be permitted to incorporate by reference the prospectus, SAI, and financial highlights.

The proposal takes into account the possibility that the information may not be available online occasionally (due to technological breakdowns), and the proposed rule will offer protection so long as the fund has reasonable systems in place to minimize this possibility and correct the problem quickly. The proposal also contemplates the potential that there will be two different sets of information (quarterly in the summary prospectus, annual in the full prospectus) upon which a fund could be sold; the rule will state that failure to include quarterly updated information in the full prospectus will not be a material misstatement or omission.

Single fund per summary: As proposed, a summary prospectus will only be allowed to contain information on a single fund. We expect the SEC to seek comment on whether there are certain types of funds for which an exception is appropriate, in order to help investors compare funds.

All of the Commissioners stressed the need to get input from investors on this proposal.

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#### **endnotes**

[1] See <http://www.sec.gov/news/press/2007/2007-234.htm>.