

**MEMO# 4907**

June 24, 1993

## **INSTITUTE COMMENT LETTER ON SEC SUMMARY PROSPECTUS PROPOSAL**

June 24, 1993 TO: BOARD OF GOVERNORS NO. 55-93 DIRECT MARKETING COMMITTEE NO. 35-93 SEC RULES COMMITTEE NO. 56-93 SUBCOMMITTEE ON ADVERTISING NO. 14-93 RE: INSTITUTE COMMENT LETTER ON SEC SUMMARY PROSPECTUS PROPOSAL

As we previously informed you, the Securities and Exchange Commission has proposed to amend Rule 482 to permit investors to purchase mutual fund shares from a summary prospectus. (See Memorandum to Board of Governors No. 21-93 and Direct Marketing Committee No. 21-93, dated March 23, 1993; Memorandum to SEC Rules Committee No. 25-93 and Subcommittee on Advertising No. 7-93, dated March 23, 1993.) The Institute recently submitted the attached comment letter to the Securities and Exchange Commission in support of the proposal. The Institute's letter states that the proposal would provide information in a concise, easy-to-read format that will make it easier for investors to assess a particular mutual fund and to compare several different mutual funds. The Institute pointed out that this benefit would be particularly important in the defined contribution retirement market, where employees often are required to choose among a number of mutual funds and other investment vehicles. The Institute also stated that the proposal would allow investors to purchase shares of mutual funds in a single step, thereby eliminating delays that some investors may wish to avoid. By removing restrictions that are virtually unique to mutual funds, the proposal "would simply enable funds to compete on a more equal basis with other providers of financial products and eliminate unnecessary costs and burdens." Even under the proposal, mutual funds would be subject to more extensive requirements than those imposed on bank accounts by the Truth in Savings Act. The Institute's letter supports the investor protections in the proposal, which would subject the summary prospectus to legal liability under the Securities Act, mandate filing with the NASD and the SEC, continue to permit potential investors to obtain a full prospectus before investing, and require that funds deliver the full prospectus to all investors, including those purchasing from the summary prospectus, with their confirmation statements. The Institute recommends removing exclusions from the proposal pertaining to multiclass and two-tier fund structures and funds that have been publicly offered for less than two years. The letter states that an exclusion for new funds could have serious anti-competitive effects. Excluding multiclass and two-tier funds, a growing segment of the industry, would deprive many retirement plan participants of the benefits of the proposal. The Institute generally supported the disclosure items set forth in the proposal, with certain modifications. Matthew P. Fink  
President Attachment

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