

MEMO# 3988

August 7, 1992

SEC ISSUES PROPOSALS TO REQUIRE MANDATORY ELECTRONIC FILING ON THE EDGAR SYSTEM

August 7, 1992 TO: EDGAR FILER GROUP SEC RULES MEMBERS NO. 34-92 SMALL FUNDS MEMBERS NO. 15-92 OPERATIONS COMMITTEE NO. 22-92 UNIT INVESTMENT TRUST COMMITTEE NO. 42-92 ACCOUNTING/TREASURERS COMMITTEE NO. 35-92 RE: SEC ISSUES PROPOSALS TO REQUIRE MANDATORY ELECTRONIC FILING ON THE EDGAR SYSTEM

I. INTRODUCTION Enclosed are proposed new rules and proposed amendments of existing rules and forms issued for public comment by the Securities and Exchange Commission to implement the operational phase of the Commission's Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") system. Also enclosed are hard copies of slides presented at an August 5, 1992 SEC-sponsored EDGAR Conference that summarize the main aspects of the EDGAR system and filing process. The proposed rules would require all SEC registrants, including registered investment companies and publicly held investment advisory firms, to submit in electronic format virtually all of their SEC disclosure filings, related exhibits and associated correspondence. Not subject to the proposed rules are filings under the Investment Advisers Act of 1940, applications for exemptive relief, and requests for no-action or interpretive positions. The proposed rules are contained in four separate releases. One applies to filings processed by the Division of Investment Management and addresses matters unique to investment companies, business development companies and institutional investment managers reporting securities holdings under management (Release Nos. 33-6945; 34-30952; IC-18863) (the "IM Release"). Another addresses matters relevant to all electronic filings on EDGAR, but applies primarily to filings processed by the Division of Corporation Finance, and to a lesser extent, to filings processed by the Division of Investment Management (Release Nos. 33-6944; 34-30951; 35-25587; 39-2285; IC-18862) (the "General Release"). -2- A third discusses instructions for filing fees and proposes the mandatory use of a U.S. Treasury designated lockbox depository in Pittsburgh, Pennsylvania for the remission of filing fees for both paper and EDGAR filings (Release Nos. 33-6947; 34-30954; 35-25589; 39-2286; IC-18864) (the "Filing Fee Release"). The fourth release, which is not relevant to Institute members, relates only to aspects of the EDGAR system unique to filings of public utility holding company systems. The releases propose the adoption of new Regulation S-T to govern electronic submissions and amendments to many of the existing SEC rules, regulations, schedules and forms that are needed to accommodate electronic filing. The IM Release includes a phase-in schedule in Appendix A listing all registered investment companies by complex (open-end and closed-end funds by adviser and unit investment trusts by sponsor) and combining complexes into six discrete groups. Each group would be required to begin mandatory electronic filing through EDGAR

on a designated date, with the first group scheduled for April 1, 1993 and the sixth and final group scheduled for November 1, 1995. Appendix A of the General Release contains a similar timetable for non-investment company registrants.

II. BACKGROUND Beginning in 1984, the Commission operated a pilot EDGAR program (the "Pilot") to determine the feasibility of an electronic disclosure system. The Pilot contractor was Arthur Andersen & Co. A group of Corporation Finance registrants volunteered for the Pilot and began submitting electronic filings in September 1984. At the request of the Commission, the Institute in 1985 organized a volunteer group of seven fund complexes and four unit investment trust sponsors from the ICI membership to join the Pilot. This group, which initially consisted of approximately 250 management investment companies and 87 unit investment trusts, began filing electronically in October 1985. The fund complexes were Federated Investors, IDS Financial Services, Putnam Management Company, T. Rowe Price Associates, Unified Corporation, The Vanguard Group and Waddell & Reed. The UIT groups were John Nuveen & Co, Dean Witter Reynolds, Merrill Lynch and PaineWebber. During the operation of the EDGAR Pilot, the Commission received over 116,000 electronic filings, including more than 80,000 from investment company participants. Over 1300 investment companies filed their semi-annual and annual reports on Form N-SAR electronically during the Pilot, as both Pilot and non-Pilot investment companies were permitted to submit these filings through EDGAR. In addition, more than 60 portfolio managers filed their Form 13F reports electronically during the Pilot.

-3- Development and implementation of the operational EDGAR system was authorized in the Securities and Exchange Commission Authorization Act of 1987 (the "EDGAR Authorization Act"). Benefits of EDGAR expected by the Commission include the improved dissemination of public information of interest to investors and other parties, the introduction of efficiencies for SEC registrants resulting from direct electronic transmission of filings, and the introduction of efficiencies for the Commission resulting from the electronic receipt, storage and processing of filings. In 1989, in accordance with the EDGAR Authorization Act, an eight-year operational EDGAR contract was awarded to BDM International, Inc. ("BDM"), a systems engineering firm. Other parties to the Contract include Mead Data Central, Bowne & Co., Disclosure Information Services and Compuserve. BDM began operating the Pilot and working with the Commission on the design and construction of the operational EDGAR system. On July 14, 1992, the Pilot was closed and on July 15, 1992, EDGAR began to accept filings from Pilot participants electing to file electronically on the operational EDGAR system prior to mandatory electronic filing. Pilot filers participated in the EDGAR Pilot under temporary rules, which were amended on April 20, 1992 to permit the voluntary conversion of Pilot participants to the operational EDGAR system. The attached proposed rules would replace the temporary rules, govern electronic filing for the operational EDGAR system, and provide for phase-in of mandatory electronic filing.

III. THE IM RELEASE A. Phase-In The phase-in schedule in Appendix A of the IM Release sets forth the proposed timetable for investment companies to begin mandatory electronic filing. The first group, which consists of the Pilot participants, is scheduled to begin mandatory electronic filing on April 1, 1993. This group is scheduled to be joined on July 1, 1993 by a second group of approximately 500 additional investment companies associated with eight additional fund complexes and ten additional unit investment trust sponsors. This second group will be the first non-Pilot filers to be phased in to mandatory electronic filing. These first two groups together will constitute a "significant test group" required by Congress in the EDGAR Authorization Act to file successfully for at least six months before the Commission can adopt final mandatory filing rules.

-4- The rules proposed in the enclosed releases would be adopted on an interim basis for application in the early stages of mandatory electronic filing. After the "significant test group" has filed successfully for six months, permanent EDGAR rules will be adopted by the Commission, based on the interim rules as modified appropriately in light of the significant test group's

experience with EDGAR. Following adoption of the final EDGAR rules, the remaining investment company registrants will be brought onto EDGAR in designated groups at six month intervals. The phase-in schedule is designed to require complexes with the largest number of registrants to begin filing electronically first. A newly created investment company that is part of a phased in complex will be required to submit its filings electronically. Investment companies that are not associated with a phased in complex or are not listed in Appendix A will be phased in with the last group. The proposed rules provide the Division of Investment Management with delegated authority to act on requests by registrants to be assigned to a different phase-in group than initially assigned for the purpose of rectifying any inappropriate assignments. The proposed rules provide that each registrant is responsible for ascertaining its phase in date from the phase-in schedule, or if not listed in the schedule, with reference to paragraph (b) of proposed Rule 305 of proposed Regulation S-T, which sets out the factors for registrants to consider in determining their phase-in dates. Each registrant must file a Form ID (described in Section VI.A of the General Release) prior to phase-in, supplying basic identifying information required for the Commission to issue a registrant's EDGAR access codes. Form ID should be filed three to six months in advance of a registrant's scheduled phase-in date to allow time for a registrant to receive its access codes and submit test filings on EDGAR in preparation for mandatory electronic filing. The Commission has specifically requested comments from registrants on the investment company phase-in approach and on whether Appendix A in the IM Release appropriately reflects registrants' investment company complex association.

B. Required Electronic Filings A phased in investment company would be required to submit electronically its registration statements and amendments thereto, its prospectus filings and proxy materials, its shareholder and Form N-SAR reports and various notices and elections. A complete list of filings required to be filed electronically is included as Appendix B in the IM Release. All documents associated with a required electronic filing, including exhibits, correspondence and any supplemental information, would also be required to be filed electronically.