

**MEMO# 8702**

March 7, 1997

## **DRAFT COMMENT LETTER ON SEC PLAIN ENGLISH PROPOSAL**

\* See Memorandum to Closed End Investment Company Committee No. 1-97, SEC Rules Committee No. 7-97 and Unit Investment Trust Committee No. 2-97, dated January 16, 1997. March 7, 1997 TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 8-97 SEC RULES COMMITTEE No. 28-97 UNIT INVESTMENT TRUST COMMITTEE No. 15-97 RE: DRAFT COMMENT LETTER ON SEC PLAIN ENGLISH PROPOSAL

Attached for your review is a draft comment letter on the SECs plain English disclosure proposal.\* The draft letter is summarized below. Please contact me at (202) 326-5822 (or by e- mail to frances@ici.org) by noon on Friday, March 14th if you have any comments on the attached draft letter. The draft letter expresses general support for the plain English proposal, noting that it complements other, ongoing efforts to improve investment company disclosure. The letter recommends that the SEC apply the plain English principles in a flexible manner. It opposes the proposed amendment to Rule 461 that would permit the SEC to refuse to accelerate the effectiveness of a registration statement that does not meet the plain English requirements. Instead, the letter recommends that the SEC enforce its existing standard under Rule 461 with the plain English standards in mind. (Rule 461 currently authorizes the SEC to refuse to accelerate effectiveness "[w]here there has not been a bona fide effort to make the prospectus reasonably concise and readable, so as to facilitate an understanding of the information required or permitted to be contained in the prospectus.") The draft letter indicates that plain English should not increase liability, and mentions that the SEC may help alleviate liability concerns by making clear its policy to encourage plain English disclosure. As you review the letter, please consider whether the Institute should recommend that the SEC take any further steps in this direction such as stating that overly detailed disclosure is not required. Alternatively, should we recommend that the SEC clarify that investment companies are free to include in their prospectuses as much detailed disclosure as they wish? The draft letter supports the proposed scope of the requirements (i.e., its application only to the front and back cover pages, summary and risk factor sections of prospectuses). It indicates that in the event the SEC decides to expand the scope, it should continue to exclude statements of additional information from the requirements. 2Finally, the draft letter states that it is essential that any plain English requirements adopted for mutual funds become effective simultaneously with the proposed amendments to Form N-1A and the fund profile rule. Frances M. Stadler Associate Counsel Attachment (in .pdf format)

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.