

**MEMO# 7877**

May 21, 1996

# **PROFILE PROSPECTUS SUBMISSION TO SECURITIES AND EXCHANGE COMMISSION**

May 21, 1996 TO: BROKER/DEALER ASSOCIATE MEMBERS No. 9-96 DIRECT MARKETING COMMITTEE No. 11-96 INDUSTRY STATISTICS COMMITTEE No. 14-96 INTERNATIONAL COMMITTEE No. 16-96 INVESTMENT ADVISERS COMMITTEE No. 10-96 MARKETING POLICY COMMITTEE No. 15-96 MEMBERS - ONE PER COMPLEX No. 36-96 PENSION COMMITTEE No. 17-96 RESEARCH COMMITTEE No. 20-96 SALES FORCE MARKETING COMMITTEE No. 13-96 SEC RULES COMMITTEE No. 45-96 SHAREHOLDER COMMUNICATIONS COMMITTEE No. 9-96 STATE LIAISON COMMITTEE No. 15-96 SUBCOMMITTEE ON ADVERTISING No. 8-96 RE: PROFILE PROSPECTUS SUBMISSION TO SECURITIES AND EXCHANGE COMMISSION

As you may know, on August 1, 1995, the Securities and Exchange Commission approved a "profile" prospectus for use during a one-year trial period. During the trial period, the profile prospectus was to be provided to investors together with the existing mutual fund prospectus, and the Institute and participating members agreed to undertake research to determine how investors assess the profile and their preferences concerning the format and contents of mutual fund disclosure. The Institute recently submitted to the Commission the results of this research and our suggestions for future Commission action. A copy of the Institutes submission and our press release announcing the submission are attached. The research of the Institute and the fund complexes that participated in the profile project provides strong evidence that the profile prospectus provides effective disclosure to investors. For example, according to the Institutes research, 70% of recent fund investors stated that the profile prospectus provides the right amount of information. Only 53% gave the same rating to the long-form prospectus; 41% stated that the long-form prospectus contains too much information. Indeed, according to the Institutes survey, 50% of all recent fund investors did not consult a long-form prospectus for any purpose before making their most recent purchase. According to the Institutes research, shareholders find the profile prospectus easier to use than the long-form prospectus. For example, 56% of recent purchasers surveyed by the Institute found it very easy to understand information in the profile prospectus on investment risks. (Only 21% found it very easy to understand this information in the long-form prospectus.) Most shareholders -- including those who consult the long-form prospectus -- indicated they would like to receive the profile prospectus either alone or with the option to receive the long-form prospectus. Sixty-six percent of recent purchasers surveyed by the Institute stated that they would like to receive the profile prospectus alone or with the option to order the long-form prospectus. All of these results are consistent with the findings of prospective investors and other surveys conducted by participating Institute members. Two members participating in the project

also surveyed broker-dealers and other financial professionals concerning the profile prospectus, and found that most of these professionals would use the profile prospectus to help inform their clients concerning the characteristics of various mutual funds. Based on the results of this research and our experience with the profile prospectus to date, the Institute has recommended that the Commission propose, for public comment, rules that would permit funds to distribute the profile prospectus for use by investors, at their option, to purchase shares or request the long-form prospectus. (All investors would receive the long-form prospectus, in any event, not later than the confirmation of purchase.) We also have recommended a number of enhancements be made to the profile prospectus including the following: a comparison of the funds 1, 5 and 10-year total returns to the returns of either a broad-based securities market index or an appropriate fund index and, at the funds option, the Treasury bill rate; disclosure concerning the funds portfolio manager; a clear statement that loss of money is a risk of investing in the fund; risk disclosure specific to the type of fund, focusing on overall portfolio risks rather than risks of particular portfolio securities; for equity funds, specifically required disclosure of the criteria used for making investments and, for fixed income funds, disclosure of any general policies concerning average maturity or duration and credit quality; a prominent legend stating that the profile "contains key information about the fund" and that if the reader would like more information before investing, the reader should consult the mutual funds long-form prospectus; in the same legend, a statement that, for details about a mutual funds holdings or recent investment strategies, investors should review the mutual funds most recent annual or semiannual report; and disclosure concerning the tax consequences of distributions. Finally, the Institute also has urged that the Commission persist in its effort to simplify the long-form prospectus. Even if the Commission were to authorize use of the profile prospectus at an investors option, the traditional prospectus will remain a helpful tool for existing shareholders, including those many investors who are able to use it effectively in making their investment decision. We will keep you informed of further developments. In the meantime, please contact me, or Craig Tyle (at 202-326-5815), or Tom Selman at (202-326-5819) of the Institute staff, if you have any questions regarding the profile prospectus project. Paul Schott Stevens Senior Vice President and General Counsel Attachments Transmittal letter from Matthew P. Fink to Arthur J. Levitt, Jr., Chairman, U.S. Securities and Exchange Commission Letter from Paul Schott Stevens to Barry P. Barbash, Director, Division of Investment Management The Profile Prospectus: An Assessment by Mutual Fund Shareholders - Summary of Research Findings - Volume I - Volume II Generic Form of Profile Prospectus Press Release Announcing Institute Submission