

**MEMO# 10848**

March 31, 1999

# **REPRESENTATIVE GILLMOR INTRODUCES BILL REQUIRING SEC TO IMPROVE DISCLOSURE OF TAX EFFECTS OF PORTFOLIO TURNOVER ON MUTUAL FUND PERFORMANCE**

[10848] March 31, 1999 TO: BOARD OF GOVERNORS No. 23-99 FEDERAL LEGISLATION MEMBERS No. 10-99 PRIMARY CONTACTS - MEMBER COMPLEX No. 34-99 PUBLIC INFORMATION COMMITTEE No. 12-99 SEC RULES COMMITTEE No. 23-99 TAX COMMITTEE No. 6-99 RE: REPRESENTATIVE GILLMOR INTRODUCES BILL REQUIRING SEC TO IMPROVE DISCLOSURE OF TAX EFFECTS OF PORTFOLIO TURNOVER ON MUTUAL FUND PERFORMANCE

Representative Paul Gillmor (R-OH) recently introduced the "Mutual Fund Tax Awareness Act of 1999," H.R. 1089. The bill has bipartisan support from ten members of the House Commerce Committee, which has jurisdiction over securities industry issues. H.R. 1089 (which is attached) is similar to legislation Representative Gillmor introduced in the last Congress. The preamble of the bill says that while investment company disclosure regarding a fund's performance is conveyed net of fees and expenses, the tax effects of the portfolio's activity are generally not included in the performance information, despite the important impact that taxes can have on overall performance. Furthermore, the bill notes that the portfolio turnover rate for an actively managed fund has increased in the past decade, leading to a significant increase in the average capital gains distributions per share. H.R. 1089's goal is to enhance shareholders' understanding of the impact taxes can have on fund performance. The legislation would direct the Securities and Exchange Commission to adopt a rule under the Investment Company Act of 1940 within one year to require improved disclosure in investment company prospectuses and annual reports of the after-tax effects of portfolio turnover on returns to investors. To date, the Commerce Committee has not planned any action on H.R. 1089. We will keep you informed of further developments. Matthew P. Fink President Attachment