

MEMO# 15660

February 14, 2003

ICI COMMENT LETTER ON SEC PROPOSAL ON SHAREHOLDER REPORTS AND PORTFOLIO HOLDINGS DISCLOSURE

[15660] February 14, 2003 TO: ACCOUNTING/TREASURERS MEMBERS No. 9-03 BOARD OF GOVERNORS No. 7-03 CLOSED-END INVESTMENT COMPANY MEMBERS No. 18-03 SEC RULES MEMBERS No. 21-03 SMALL FUNDS MEMBERS No. 9-03 RE: ICI COMMENT LETTER ON SEC PROPOSAL ON SHAREHOLDER REPORTS AND PORTFOLIO HOLDINGS DISCLOSURE The Institute has filed a comment letter with the Securities and Exchange Commission on proposed rule and form amendments relating to shareholder reports and quarterly portfolio holdings disclosure of registered management investment companies.¹ A copy of the letter is attached, and it is briefly summarized below. **Proposals to Improve Disclosure in Shareholder Reports** The draft letter expresses support for the Commission's proposals to improve the disclosure provided in fund shareholder reports. It makes a number of specific comments on these proposals, including the following. **Summary Portfolio Schedule** • The letter strongly supports the proposal to permit funds to include a summary portfolio schedule in their shareholder reports. It recommends that the Commission provide flexibility to funds with respect to the format of the summary schedule, instead of requiring that portfolio holdings be listed in order of descending value. • The letter recommends that the summary portfolio schedule not be limited to investments in securities of unaffiliated issuers but instead extend also to any investments other than securities and investments in affiliates that are among the fund's 50 largest holdings or constitute more than one percent of net assets. ¹ See Memorandum to Board of Governors No. 42-02, SEC Rules Members No. 116-02, Closed-End Investment Company Members No. 70-02, Accounting/Treasurers Members No. 54-02, and Small Funds Members No. 57-02, dated December 20, 2002. ² • The letter expresses concern that the proposed requirement to aggregate securities by issuer for purposes of determining whether they constitute more than one percent of the fund's net assets but to list each issue separately in the summary portfolio schedule would essentially nullify the benefits of the summary portfolio schedule in some cases (e.g., a U.S. government securities fund). It encourages the Commission to revise the proposal to address this concern. • The letter recommends that the Commission not require multiple funds included in the same shareholder report to use the same type of portfolio schedule (summary or complete). • The letter recommends that the summary portfolio schedule proposal be revised to provide an exception to allow funds to designate a category of "miscellaneous securities," as currently permitted by note 1 to Rule 12-12 of Regulation S-X. • The letter recommends that funds that use a summary portfolio schedule be permitted to provide their complete portfolio schedules to investors by posting this information on their websites. **Exemption of Money Market Funds** • The letter supports exempting money market funds from the requirement to provide a schedule of investments in securities of

unaffiliated issuers in their shareholder reports, and recommends extending the exemption to all types of investments currently required to be listed in such reports. Tabular or Graphic Presentation • The letter supports the proposal to require each fund to include a presentation in its shareholder reports that uses tables, charts or graphs to depict the fund's portfolio by reasonably identifiable category, such as industry sector, geographic region, credit quality or maturity. It recommends that funds have the option of basing the presentation either on the fund's net assets or on its total investments. Disclosure of Fund Expenses • The letter supports the proposal to require new disclosure concerning ongoing expenses in shareholder reports. It recommends, however, that the Commission simplify the proposed disclosure by requiring only one dollar amount figure – the cost in dollars of a \$10,000 investment in the fund, based on the fund's actual expenses and return. Management's Discussion of Fund Performance • The letter recommends that the Commission continue to allow funds to place the Management's Discussion of Fund Performance either in their prospectuses or in their annual reports. 3 Proposal to Require Quarterly Filing of Portfolio Holdings • The letter questions the benefits, and expresses continuing concern about the potential harms, of requiring funds to disclose their portfolio holdings more frequently than semi- annually. It indicates that the Institute would not oppose the Commission's proposal to require quarterly portfolio holdings disclosure with a 60-day lag, provided that it is revised to allow for confidential treatment of individual holdings in certain circumstances. • The letter recommends that the Commission revise the requirements for reporting by institutional investment managers on Form 13F to require that the reports be filed semi- annually (rather than quarterly), within 60 days (rather than 45 days) after the end of the relevant period. • The letter recommends that money market funds be exempted from the requirement to file portfolio schedules for their first and third fiscal quarters on proposed Form N-Q and instead continue to file their full portfolio schedules with the Commission semi- annually. Effective Date • The letter recommends that the Commission designate an effective date that is 120 days after the adoption of the proposed amendments. Frances M. Stadler Deputy Senior Counsel Note: Not all recipients receive the attachment. To obtain a copy of the attachment, please visit our members website (<http://members.ici.org>) and search for memo 15660, or call the ICI Library at (202) 326-8304 and request the attachment for memo 15660. Attachment (in .pdf format)