

MEMO# 6035

July 7, 1994

VERMONT ISSUES POLICY STATEMENT ON MUTUAL FUND WRAPPERS

July 7, 1994 TO: SEC RULES COMMITTEE NO. 73-94 STATE SECURITIES MEMBERS NO. 35-94
SUBCOMMITTEE ON ADVERTISING NO. 12-94 UNIT INVESTMENT TRUST COMMITTEE NO.
47-94 RE: VERMONT ISSUES POLICY STATEMENT ON MUTUAL FUND WRAPPERS

The Vermont Department of Banking, Insurance and Securities recently issued the attached Securities Division Bulletin No. 94-1- S, "Statement of Policy Regarding Mutual Fund Prospectus Wrapper Brochures" ("Bulletin"). The policy outlined in the Bulletin becomes effective July 15, 1994. According to the Bulletin, the Securities Division has made a determination that "the format, content or presentation of a prospectus wrapper brochure within which a [mutual fund] prospectus is bound or enclosed may ... operate to induce or influence an investor to rely primarily ... on the content of promotional materials in making an investment decision rather than on information in the ... prospectus." Under these circumstances, a prospectus wrapper may be viewed as "detracting from, superseding or defeating the purpose of the prospectus" within the meaning of Rule 3.18 of the Securities Division. In order to address the foregoing concern, the Securities Division will require prospectus wrappers to include: 1. the following legend on the cover page of the prospectus wrapper, in bold-face roman type: "THIS BROCHURE INCLUDES A PROSPECTUS WHICH DESCRIBES IN DETAIL THE FUND'S OBJECTIVES, INVESTMENT POLICIES, RISKS, SALES CHARGES, FEES AND OTHER MATTERS OF INTEREST. PLEASE READ THE PROSPECTUS CAREFULLY BEFORE YOU INVEST OR SEND MONEY", and 2. a sentence on each page of the prospectus wrapper that states in bold-face type that the prospectus wrapper brochure is not part of the prospectus. The Bulletin also reiterates Section 4234(b) of the Vermont Securities Act, which states that advertising material may not be used in Vermont until it has been submitted to the Securities Division for approval. Prospectus wrappers filed pursuant to Section 4234(b) must be identified and submitted with the prospectus. The Bulletin further states that the Securities Division will review prospectus wrappers to ensure that they comply with the above-referenced policy.

Patricia Louie Associate Counsel Attachment