

**MEMO# 8080**

July 23, 1996

## **SEC STAFF PERMITS FUNDS TO INCLUDE RULE 19A-1 DISCLOSURE ON ACCOUNT STATEMENTS**

July 23, 1996 TO: CLOSED-END FUND MEMBERS No. 20-96 COMPLIANCE COMMITTEE No. 20-96 SEC RULES MEMBERS No. 37-96 TRANSFER AGENT ADVISORY COMMITTEE No. 42-96  
RE: SEC STAFF PERMITS FUNDS TO INCLUDE RULE 19a-1 DISCLOSURE ON ACCOUNT STATEMENTS

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We are pleased to inform you that the Institute has received no-action assurances from the Division of Investment Management if funds provide the dividend source information required under Section 19(a) of the Investment Company Act of 1940 and Rule 19a-1 thereunder either (1) on, or together with, quarterly or more frequent periodic statements, where dividend payments are automatically reinvested in fund shares or are automatically directed to another account or person other than the shareholder of record, or (2) on the detachable statement accompanying the check, where dividends are paid to the shareholder by check. A copy of the staffs no-action letter and the Institutes request is attached. Section 19(a) and Rule 19a-1 generally require funds to accompany dividend payments to shareholders with a written statement indicating what portion of the dividend payment was made from net investment income, undistributed net profits or paid-in capital, if any portion of the payment is derived from any source other than net investment income. Rule 19a-1 specifies that the required disclosure "shall be made on a separate paper." In its request, the Institute expressed the view that, where a shareholder either reinvests dividends or directs dividend payments to a bank or brokerage account or to a third party, the objectives of Section 19(a) and Rule 19a-1 would be satisfied if funds provide the required disclosure with or as part of periodic account statements, rather than on a separate paper at the time the dividend is paid. In addition, the Institute asserted that (1) transmitting information about a dividend payment at the same time would eliminate potential investor confusion that could result if a dividend source statement is received prior to the account statement, (2) investors may be more likely to read and retain the information if it is provided on the account statement and (3) significant savings would be realized by funds and their shareholders through the elimination of printing and mailing costs associated with separate mailings of dividend source statements. The Institutes request notes that, where dividends are paid by check, providing the dividend source disclosure on a check stub is consistent with the "separate paper" requirement under Rule 19a-1 because the stub becomes a separate paper when it is detached from the check. The Institute also asserted that including the required disclosure on the check stub would provide adequate disclosure to investors and would minimize the potential for investor confusion. Amy B.R. Lancellotta Associate Counsel Attachment Note: Not all recipients of this memo will receive an attachment. If you wish to obtain a copy of the attachment

referred to in this memo, please call the Institute's Information Resource Center at (202)326-8304, and ask for this memo's attachment number: 8080.

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