

MEMO# 2675

April 8, 1991

INSTITUTE RECEIVES RESPONSE FROM NEW JERSEY REGARDING DISCLOSURE CONCERNS

April 8, 1991 TO: STATE SECURITIES MEMBERS NO. 14-91 SEC RULES COMMITTEE NO. 21-91 RE: INSTITUTE RECEIVES RESPONSE FROM NEW JERSEY REGARDING DISCLOSURE CONCERNS _____ As we previously informed you, the Institute responded to the New Jersey Securities Bureau's concerns that the disclosure contained in a mutual fund prospectus was inadequate unless accompanied by the statement of additional information ("SAI"). (See Memoranda to State Securities Members Nos. 7-91 and 10-91; SEC Rules Committee Nos. 9-91 and 15-91, dated January 31, 1991 and February 28, 1991.) The Bureau recently acknowledged receipt of the Institute's letter and stated that it "is concerned that, as a result of the widespread use of Form N-1A, practices have developed in the mutual fund industry that are not consistent with full disclosure and protection of investors." The Bureau's letter goes on to recommend certain actions that could be taken by mutual funds to eliminate the "abuses" perceived by the Bureau to be practiced by mutual funds. The Bureau's recommendations are as follows: increasing the availability of the SAI and annual reports to investors and making such documents available to broker-dealers; disclosing the availability of the SAI in bold face type; including a table of contents of the SAI in the prospectus; including disclosure of the existence and availability of the SAI in the "Additional Information" section; and disclosing the risk factors of a fund in the prospectus. However, it is unclear whether such actions must be implemented in order to be deemed in compliance with the New Jersey Securities Act or whether such are merely recommendations to be considered by fund sponsors. The Institute suggested that the Bureau raise its concerns and recommendations at the 1991 Conference on Federal-State Regulation of Securities Conference to be held on April 19. The Institute felt this would be appropriate since the two-part disclosure format is specifically included as an agenda item for the conference and each of the suggestions could be fully explored by the SEC, NASAA and the participating states. The Institute concluded by reiterating its belief that a mutual fund prospectus containing the disclosure required by Form N-1A includes all the necessary and material information required for an investor to make an informed investment decision and reaffirmed its commitment to the two-part disclosure format. * * * A copy of the Institute's letter to the Bureau and the Bureau's letter to the Institute is attached. We will keep you advised of further developments. Patricia Louie Assistant General Counsel Attachments

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.