

MEMO# 7758

April 1, 1996

INSTITUTE PROPOSAL FOR SEC RULEMAKING TO AUTHORIZE USE OF THE PROFILE PROSPECTUS

1 See Memorandum to SEC Rules Members No. 53-95, dated August 1, 1995. April 1, 1996
TO: SEC RULES COMMITTEE No. 24-96 RE: INSTITUTE PROPOSAL FOR SEC RULEMAKING TO
AUTHORIZE USE OF THE PROFILE PROSPECTUS

As we previously reported, since August 1, 1995 the Securities and Exchange Commission and the mutual fund industry have engaged in a pilot program to test and evaluate a new disclosure document, the "profile prospectus."¹ The profile prospectus is intended to provide persons making an investment decision with a summary of key information about a mutual fund in a clear, concise and standardized form that facilitates comparisons among different funds. During the pilot period, the mutual fund industry is conducting extensive empirical research on shareholder disclosure preferences. The Institute will soon submit to the Commission the results of this research and a request for Commission rulemaking to permit funds to use the profile as a stand-alone offering document. Attached is a draft rule and SEC form to effect the Institutes proposal. Please provide your comments on the Institutes draft rulemaking proposal to Tom Selman (at 202/326-5819) by Monday, April 15, 1996. Due to the provisional nature of this draft proposal, we request that, until the Institute submits its final proposal to the Commission, you keep the status of the profile project in strictest confidence. The proposed rule and form would permit (but not require) use of a profile prospectus. The rule would provide that any profile prospectus filed on the new form by a mutual fund with an effective registration statement on Form N-1A would be deemed a Section 10(b) omitting prospectus. The rule would further provide that the profile prospectus is to be filed with the Commission under Rule 497 under the Securities Act of 1933. The form would permit a profile prospectus only to pertain to a single mutual fund or a series, as is currently the case during the test period. (A profile could be used for more than one class of a multiple class fund or more than one feeder of a master-feeder fund.) An application to purchase shares accompanying the profile would have to provide a blank that investors can mark to order the Section 10(a) prospectus, adjacent to and equally prominent with the blank that investors would mark to indicate their interest in investing. A Section 10(a) prospectus would have to be delivered within three business days after a fund receives a request from a profile recipient. A fund would be prohibited from incorporating by reference to the profile prospectus any information from the funds Section 10(a) prospectus or any other document. The disclosure that would be required by the proposed form has been developed by the Institute and the eight fund groups participating in the profile project. The form would require disclosure of certain information that has not

been required during the test period, including: a legend referring to information in a funds periodic reports about the funds portfolio securities and investment strategy; enhanced disclosure concerning a funds investment strategy; disclosure focusing on overall risks of investing in a fund, rather than on the risks associated with particular portfolio securities; new risk disclosure concerning the possibility of loss of money from investing in a fund; in the bar graph and 1, 5 and 10-year performance disclosure, a comparison of a funds return with either the Item 5A(b) index or an appropriate mutual fund index; and portfolio manager disclosure (with flexibility in cases of multiple managers or a management committee). The form would permit funds to use stickers or "buck slips" to update performance information. Paul Schott Stevens Senior Vice President and General Counsel
Attachment

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