

MEMO# 15903

April 16, 2003

ICI SUPPLEMENTAL COMMENT LETTER ON SEC SUMMARY PORTFOLIO SCHEDULE PROPOSAL

[15903] April 16, 2003 TO: ACCOUNTING/TREASURERS COMMITTEE No. 16-03 CLOSED-END INVESTMENT COMPANY COMMITTEE No. 26-03 SEC RULES COMMITTEE No. 33-03 SMALL FUNDS COMMITTEE No. 14-03 RE: ICI SUPPLEMENTAL COMMENT LETTER ON SEC SUMMARY PORTFOLIO SCHEDULE PROPOSAL Earlier this year, the Institute filed a comment letter on the Securities and Exchange Commission's proposals concerning shareholder reports and portfolio holdings disclosure.¹ The letter strongly supported, among other things, the proposal to permit funds to include a summary portfolio schedule in their shareholder reports. The letter expressed concern, however, that the proposed criteria for identifying and listing holdings in the summary schedule would essentially nullify the benefits of the summary portfolio schedule for some types of funds (i.e., U.S. government and corporate fixed income funds that own multiple securities of a single issuer).² The letter encouraged the SEC to revise its proposal to address this concern. The Institute has filed supplemental comments with the SEC making specific recommendations in this area. Our supplemental letter is attached and summarized below. The supplemental letter recommends that the SEC revise the proposed requirement that funds list separately in the summary portfolio schedule those issues of an issuer that in aggregate exceed one percent of net assets. It states that, as under the SEC's proposal, funds should be required to list their 50 largest issues and any other individual issue that exceeds one percent of net assets. Funds should not be required, however, to list separately any other individual fixed income holdings. Instead, fixed income securities that individually are not among the 50 largest issues and do not exceed one percent of net asset value, but that exceed 1 See Memorandum to Accounting/Treasurers Members No. 9-03, Closed-End Investment Company Members No. 18-03, SEC Rules Members No. 21-03 and Small Funds Members No. 9-03, dated February 14, 2003. 2 Under the SEC's proposal, funds would be required to include in the summary schedule the 50 largest issues held by the fund and any other securities the value of which exceeded one percent of the fund's net asset value as of the close of the reporting period. For purposes of determining whether the value of a security exceeds one percent of net asset value, funds would be required to aggregate and treat as a single issue all securities of any one issuer. For purposes of listing holdings in the summary schedule, however, each issue would be required to be listed separately. 2 one percent of net asset value when aggregated with other securities of the same issuer, should be listed in the aggregate by issuer. The letter provides examples of how this would work. The supplemental letter notes that the Institute's proposed approach is consistent with the objectives of the SEC's proposal - to streamline reports and help investors focus on a fund's principal holdings, and thereby better evaluate the fund's risk profile and investment strategy. The letter points

out that the full schedule of investments would still be available to interested investors.
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