

**MEMO# 8555**

January 16, 1997

## **SEC ISSUES PLAIN ENGLISH DISCLOSURE PROPOSALS AND A DRAFT HANDBOOK**

1 Release Nos. 33-7380; 34-38164; IC-22464 (January 14, 1997). 2 The changes to Regulation S-K generally would not apply to mutual funds, but might apply to other types of investment companies (such as closed-end funds). It should be noted, however, that legends similar to those in Regulation S-K that would be amended are included in specific rules for investment companies and that the Commission is consider adopting conforming amendments to those rules. Therefore, please review the proposed amendments to Regulation S-K with that in mind. None of the forms that would be amended are used by investment companies. (See pages 42-43 of the Commission's release for a full discussion of the applicability of the proposals to investment companies.) January 16, 1997 TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 1-97 SEC RULES COMMITTEE No. 7-97 UNIT INVESTMENT TRUST COMMITTEE No. 2-97 RE: SEC ISSUES PLAIN ENGLISH DISCLOSURE PROPOSALS AND A DRAFT HANDBOOK

\_\_\_\_\_ The  
Securities and Exchange Commission just issued for public comment proposed rule amendments to require all registrants, including investment companies, to use plain English principles in writing, among other things, the front and back cover pages and the summary of prospectuses.<sup>1</sup> Specifically, the Commission has proposed amendments to Rules 421 and 461 under the Securities Act of 1933, to Regulation S-K<sup>2</sup> and to various forms under the Securities Act. In addition, the Commission also has issued a draft plain English handbook "to provide practical tips on how to create plain English documents." Set forth below is a brief summary of the proposed rule amendments regarding plain English disclosure. Comments are due to the Commission on the rule proposals and the draft handbook by March 24, 1997. Please provide the undersigned with your comments on the proposed rules and the draft handbook for possible inclusion in an Institute comment letter by February 14, 1997. My direct number is 202/326-5824, the fax number is 202/326-5827 and my e-mail address is amy@ici.com. Rule 421 under the Securities Act The Commission has proposed a new provision under Rule 421 under the Securities Act of 1933, paragraph (d), which would specify six minimum plain English writing principles that public companies and mutual funds should use in drafting the front and back cover pages, and the summary section if any, included in the prospectus. These principles are: C active voice; C short sentences; C definite, concrete, everyday words; C tabular presentation or "bullet" list for complex material, whenever possible; no legal jargon, or highly technical business terms; and C no multiple negatives. In addition, the Commission has proposed to expand Rule 421(b) to provide guidance on the minimum requirements to meet the current provision for clear, concise and understandable disclosure in the prospectus. Specifically, Rule 421(b) would state that: C information must be presented in clear, concise paragraphs and sentences. If possible, information should be presented in short explanatory sentences and

"bullet" lists; C captions and subheading titles must describe specifically the information included in the section; C terms that are not clear from the context generally should be defined in a glossary or other section of the document. Glossaries are recommended where they facilitate understanding of the disclosure. Frequent reliance on glossaries or defined terms as the primary means of explaining information in the body of the prospectus should be avoided; and C legal and highly technical business terminology should be avoided. Rule 461 under the Securities Act Among the factors that the staff currently considers pursuant to Rule 461 under the Securities Act when determining whether to accelerate the effectiveness of a registration statement is the clarity of the disclosure. The proposal would amend paragraph (b)(1) of that rule to permit the staff additionally to refuse to accelerate a registration statement when it has not been drafted in plain English. Amy B.R. Lancellotta Associate Counsel Attachments (in .pdf format)

---

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.