

MEMO# 10419

October 27, 1998

LEGISLATION WOULD REQUIRE SEC TO IMPROVE DISCLOSURE OF PORTFOLIO TRANSACTION TAX EFFECTS ON MUTUAL FUND PERFORMANCE

[10419] October 27, 1998 TO: BOARD OF GOVERNORS No. 71-98 FEDERAL LEGISLATION MEMBERS No. 27-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 99-98 PUBLIC INFORMATION COMMITTEE No. 49-98 SEC RULES COMMITTEE No. 106-98 TAX COMMITTEE No. 33-98 RE: LEGISLATION WOULD REQUIRE SEC TO IMPROVE DISCLOSURE OF PORTFOLIO TRANSACTION TAX EFFECTS ON MUTUAL FUND PERFORMANCE

On October 13, Representative Paul Gillmor (R-OH) introduced the "Mutual Fund Tax Awareness Act," H.R. 4822. The bill was co-sponsored by a dozen members of the House Commerce Committee, which has jurisdiction over securities industry issues. The legislation (which is attached) finds that while investment company disclosure regarding a fund's performance is conveyed net of fees and expenses, the tax effects of the portfolio's activity are generally not included in the performance information, despite the important impact that taxes can have on overall performance. The bill states, "The incompleteness of this disclosure with respect to taxes . . . presents investors with a false or misleading picture of fund performance." Furthermore, the bill notes that the portfolio turnover rate for an actively managed fund has increased in the past decade, leading to a significant increase in the average capital gains distributions per share. H.R. 4822 attempts to enhance shareholders' understanding of the impact taxes can have on fund performance. The legislation would direct the Securities and Exchange Commission to issue a rulemaking under the Investment Company Act of 1940 to require improved disclosure in investment company prospectuses and annual reports of the after-tax effects of portfolio turnover on returns to investors. Representative Gillmor has indicated that he plans to introduce this legislation again in the next Congress, which convenes in January 1999. We will keep you informed of further developments. Matthew P. Fink President Attachment