

MEMO# 7876

May 20, 1996

INSTITUTE PROFILE PROSPECTUS SUBMISSION TO SECURITIES AND EXCHANGE COMMISSION

May 20, 1996 TO: BOARD OF GOVERNORS No. 20-96 RE: INSTITUTE PROFILE PROSPECTUS
SUBMISSION TO SECURITIES AND EXCHANGE COMMISSION

As you know, Securities and Exchange Commission Chairman Arthur Levitt initiated the profile prospectus project in 1994. In August 1995, the Commission approved an experimental version of the profile prospectus for use during a one-year trial period by participating fund groups. At that time, Chairman Levitt urged the industry to conduct research as to whether the profile aids investors. On Monday, May 20, 1996, the Institute submitted to the Commission the results of this research and our suggestions for future Commission action. A copy of the Institutes submission and our press release announcing the submission are attached. The research of the Institute and the fund complexes that participated in the profile project provides strong evidence that the profile prospectus conveys mutual fund disclosure more effectively than the traditional prospectus and that many investors favor the profile prospectus and likely would read and benefit from it. For example, sixty-six percent of recent purchasers surveyed by the Institute stated that they would like to receive the profile prospectus alone or with the option to order the long-form prospectus. Based on the results of this research, our discussions with Institute members, consultation with experts, and our experience with the profile prospectus to date, the Institute suggests that the Commission consider proposing for public comment rules that would permit the distribution of profile prospectuses to investors with an application that investors may use, at their option, either to purchase shares or to order the long-form prospectus. In our letter to the Commission, we suggest that, through the public comment process, the Commission could expect to receive many useful comments concerning how mutual fund disclosure can more effectively be conveyed to shareholders. Our submission includes many suggested enhancements to the profile prospectuses currently in use, including the following: a comparison of the funds 1, 5 and 10-year total returns to the returns of either a broad-based securities market index or an appropriate fund index and, at the funds option, the Treasury bill rate; disclosure concerning the funds portfolio manager; a clear statement that loss of money is a risk of investing in the fund; risk disclosure specific to the type of fund, focusing on overall portfolio risks rather than risks of particular portfolio securities; for equity funds, specifically required disclosure of the criteria used for making investments and, for fixed income funds, disclosure of any general policies concerning average maturity or duration and credit quality; a prominent legend stating that the profile "contains key information about the fund" and that if the reader would like more information before

investing, the reader should consult the mutual funds long-form prospectus; in the same legend, a statement that, for details about a mutual funds holdings or recent investment strategies, investors should review the mutual funds most recent annual or semiannual report; and disclosure concerning the tax consequences of distributions. The Institute also urges that the Commission continue its effort to simplify the long- form prospectus. Even if the Commission were to authorize use of the profile prospectus at an investors option, the traditional prospectus will remain a helpful tool for existing shareholders, including those many investors who are able to use it effectively in making their investment decisions.

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