

**MEMO# 8887**

May 14, 1997

## **DRAFT INSTITUTE LETTERS ON SEC DISCLOSURE PROPOSALS**

\* See Memorandum to SEC Rules Committee No. 24-97, dated March 3, 1997. May 14, 1997  
TO: SEC RULES COMMITTEE No. 52-97 RE: DRAFT INSTITUTE LETTERS ON SEC DISCLOSURE PROPOSALS

As you know, the Securities and Exchange Commission has proposed: (1) revisions to Form N-1A; (2) new Rule 498 under the Securities Act and the Investment Company Act, to permit an investor to buy fund shares based on a fund "profile"; and (3) new Rule 35d-1 under the Investment Company Act, to address fund names.\* Attached are draft comment letters on each of the proposals, which reflect a consensus of the attendees at meetings held on April 1 and April 9 to discuss the proposals. Within each draft letter, we have highlighted several issues on which we are specifically seeking members input. Form N-1A and Fund Profile The draft letters on the proposed revisions to Form N-1A and the proposed fund profile express strong support for the proposals, and suggest minor modifications to the proposals to further their objective of improving mutual fund disclosures. With respect to the fund profile letter, we are particularly interested in your views on whether there are any disclosure items that we should suggest adding to the profile (e.g., material pending legal proceedings) that may assist in protecting a fund that uses a profile from being subject to claims that allege that material information has been omitted from the profile because that information appears in the funds long-form prospectus. Fund Name Rule The draft letter on proposed Rule 35d-1 expresses general support for a requirement that funds with names that suggest they focus on a particular type of investment invest at least 80% of their net assets in the type of investment suggested by their names. The Institutes support, however, is conditioned on the proposal being revised to: (1) eliminate the requirement that the 80% standard be adopted as a fundamental policy; (2) include an exception from the 80% standard for certain cash management practices; and (3) base the test only on a funds net assets, rather than net assets plus certain borrowings as proposed. The draft letter also expresses support for requiring bond funds that hold themselves out as having a stated maturity policy to have a commensurate duration policy, and recommends a methodology for calculating portfolio duration for this purpose. Comments are due to the SEC on the proposals by June 9, 1997. Please provide your comments on the draft letters by May 21, 1997 to: Frances Stadler on the letter regarding the Form N-1A amendments (by phone at 202/326-5822 or e-mail at frances@ici.org); Dorothy Donohue on the fund "profile" letter (by phone at 202/326-5821 or e-mail at donohue@ici.org); and to Amy Lancellotta on the fund name letter (by phone at 202/326-5824 or e-mail at amy@ici.org). They can be reached by fax at 202/326-5827. Craig S. Tyle Vice President & Senior Counsel

Attachments

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