

**MEMO# 1327**

August 8, 1989

## **SEC STAFF CONSIDERS REQUIRING FUND DISCLOSURE ABOUT MEETING INVESTMENT OBJECTIVES**

August 8, 1989 TO: SEC RULES COMMITTEE NO. 47-89 CLOSED-END FUND COMMITTEE NO. 32-89 ACCOUNTING/TREASURERS COMMITTEE NO. 28-89 RE: SEC STAFF CONSIDERS REQUIRING FUND DISCLOSURE ABOUT MEETING INVESTMENT OBJECTIVES

Several weeks ago the Institute scheduled a meeting with the SEC staff on August 7 to discuss issues related to voting of proxies by investment managers. Last Wednesday, Kathryn McGrath, Director of the Division of Investment Management, stated that she also wanted to discuss at the meeting the possibility of the SEC adopting a Management's Discussion and Analysis requirement for mutual funds. The purpose of the MD & A would be to discuss management's success or failure in meeting its investment objectives. (Although the staff has not specifically mentioned closed-end funds in connection with the requirement, it is possible that any requirement would apply to closed-end as well as open-end funds.) In preparation for the meeting Institute staff members asked a number of industry attorneys and accountants for their reactions to the suggested requirement. The industry reaction is summarized below.

1. Funds already provide sufficient information in their financial statements, including per share tables, and in the presidents' letter that accompany shareholder reports.
2. Any assessment of how the fund has performed would be so subjective that it should not be included in any document more formal than a president's letter.
3. Funds should not be required to forecast.
4. Fund performance should not be required to be compared to external benchmarks.
5. SEC disclosure requirements should not encourage short-term investing in funds which are long-term in nature.

The Institute conveyed the above reactions to the SEC staff along with the explanation that the comments were by necessity only the extemporaneous reactions of a sampling of the industry. According to the SEC staff, they prefer narrative to numerical disclosure and they do not intend to require funds to do any forecasting. What the staff does intend to do is to strongly urge the Commission to propose requiring fund disclosure of success or failure in meeting investment objectives in a fund's annual report to shareholders and a fund's prospectus. The purpose of such a requirement appears to be to provide shareholders with the same type of information that a fund's board of directors receives when it reviews the fund's management contract. Thus, to the extent that a fund's managers are judged internally against an external benchmark, the fund might be required to disclose how it did in relation to that benchmark. We will keep you apprised of developments. Mary K. Bellamy Associate General Counsel

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