

**MEMO# 15582**

January 28, 2003

# **DRAFT ICI COMMENT LETTER ON SEC PROPOSAL ON SHAREHOLDER REPORTS AND PORTFOLIO HOLDINGS DISCLOSURE; FEBRUARY 6 CONFERENCE CALL**

[15582] January 28, 2003 TO: ACCOUNTING/TREASURERS COMMITTEE No. 6-03 CLOSED-END INVESTMENT COMPANY COMMITTEE No. 6-03 SEC RULES COMMITTEE No. 10-03 SMALL FUNDS COMMITTEE No. 4-03 RE: DRAFT ICI COMMENT LETTER ON SEC PROPOSAL ON SHAREHOLDER REPORTS AND PORTFOLIO HOLDINGS DISCLOSURE; FEBRUARY 6 CONFERENCE CALL As previously indicated, the Securities and Exchange Commission has proposed rule and form amendments relating to shareholder reports and quarterly portfolio holdings disclosure of registered management investment companies.<sup>1</sup> A draft of the Institute's comment letter on the Commission's proposals is attached for your review and is briefly summarized below. We will be holding a conference call to discuss comments on the draft letter on Thursday, February 6th, at 4:00 p.m. Eastern time. The dial-in information for the call is provided below. Please contact Monica Carter-Johnson at (202) 326-5823 or [mcarter@ici.org](mailto:mcarter@ici.org) to let her know if you plan to participate on the call. Dial-in number: 888-452-0455 Pass code: Shareholder/Frances Stadler Proposals to Improve Disclosure in Shareholder Reports The draft letter expresses support for the Commission's proposals to improve the disclosure provided in fund shareholder reports. It makes a number of specific comments on these proposals, including the following. Summary Portfolio Schedule • The letter strongly supports the proposal to permit funds to include a summary portfolio schedule in their shareholder reports. It recommends that the Commission provide flexibility to funds with respect to the format of the summary schedule, instead 1 See Memorandum to Accounting/Treasurers Committee No. 55-02, Closed-End Investment Company Committee No. 56-02, SEC Rules Committee No. 107-02 and Small Funds Committee No. 21-02, dated December 20, 2002. 2 of requiring that portfolio holdings be listed in order of descending value. • The letter recommends that the Commission not require multiple funds included in the same shareholder report to use the same type of portfolio schedule (summary or complete). • The letter recommends that the summary portfolio schedule not be limited to investments in securities of unaffiliated issuers but instead extend to all of the investments that funds are required to disclose pursuant to Regulation S-X. • The letter recommends that the summary portfolio schedule proposal be revised to provide an exception to allow funds to designate a category of "miscellaneous securities," as currently permitted by note 1 to Rule 12-12 of Regulation S-X. • The letter recommends that funds that use a summary portfolio schedule be permitted to provide

their complete portfolio schedules to investors by posting this information on their websites. [Note: the draft letter does not reflect the comment expressed by some members on our January 13th conference call that the SEC should not require short-term debt instruments of the same issuer and fully collateralized repurchase agreements to be aggregated and treated as a single issue, because it was not clear what the basis for this comment would be. If you have thoughts on this issue, please contact the undersigned at frances@ici.org.]

**Exemption of Money Market Funds** • The letter supports exempting money market funds from the requirement to provide a schedule of investments in securities of unaffiliated issuers in their shareholder reports, and recommends extending the exemption to all types of investments currently required to be listed in such reports.

**Tabular or Graphic Presentation** • The letter supports the proposal to require each fund to include a presentation in its shareholder reports that uses tables, charts or graphs to depict the fund's portfolio by reasonably identifiable category, such as industry sector, geographic region, credit quality or maturity. It recommends that the presentation be based on the fund's total assets, rather than net assets, to avoid the potential that the investments represented could total more than 100%.

**Disclosure of Fund Expenses** • The letter supports the proposal to require new disclosure concerning ongoing expenses in shareholder reports. It recommends, however, that the Commission simplify the proposed disclosure by requiring only one dollar amount figure – the cost in dollars of a \$10,000 investment in the fund, based on the fund's actual expenses and return.

**3 Management's Discussion of Fund Performance** • The letter supports requiring funds to include the Management's Discussion of Fund Performance in their annual reports.

**Proposal to Require Quarterly Filing of Portfolio Holdings** • The letter questions, but does not oppose, the proposal to require funds to file their complete portfolio holdings schedules with the Commission quarterly, provided that it is revised to allow for confidential treatment of individual holdings in certain circumstances. [Note: this position, which differs from the position agreed to on our January 13th conference call with members, reflects the views of the Institute's Executive Committee.]

• The letter recommends that the Commission revise the requirements for reporting by institutional investment managers on Form 13F to require that the reports be filed semi-annually (rather than quarterly), within 60 days (rather than 45 days) after the end of the relevant period.

• The letter recommends that money market funds be exempted from the requirement to file proposed Form N-Q and continue to file their full portfolio schedules with the Commission semi-annually. [Note: as agreed on our January 13th conference call, the draft letter does not recommend that funds be required to file their portfolio schedules based on calendar quarters rather than fiscal quarters because of the concern that funds then would have to disclose their portfolio holdings at least six times per year. If members wish to revisit this issue on the February 6th conference call, we will do so.]

**Effective Date** • The letter recommends that the Commission designate an effective date that is 120 days after the adoption of the proposed amendments.

Frances M. Stadler Deputy Senior Counsel  
Attachment (in .pdf format)