

**MEMO# 4683**

April 8, 1993

# **SEC ADOPTS PORTFOLIO MANAGER AND MANAGEMENT'S DISCUSSION DISCLOSURE REQUIREMENTS**

April 8, 1993 TO: BOARD OF GOVERNORS NO. 29-93 SEC RULES MEMBERS NO. 35-93 ACCOUNTING/TREASURERS MEMBERS NO. 11-93 MARKETING POLICY COMMITTEE NO. 17-93 DIRECT MARKETING COMMITTEE NO. 25-93 SALES FORCE MARKETING COMMITTEE NO. 26-93 SHAREHOLDER COMMUNICATIONS COMMITTEE NO. 20-93 PUBLIC INFORMATION COMMITTEE NO. 23-93 RE: SEC ADOPTS PORTFOLIO MANAGER AND MANAGEMENT'S DISCUSSION DISCLOSURE REQUIREMENTS

The Securities and Exchange Commission has adopted rule and form amendments under the Securities Act and the Investment Company Act to require mutual funds (1) to disclose in their prospectuses the name and background of persons who are primarily responsible for the day-to-day management of the fund's portfolio and (2) to include in their prospectuses or, alternatively, in their annual reports, (a) a discussion of the factors, strategies and techniques that materially affected the fund's performance and (b) a line graph comparing its performance to that of an appropriate broad-based securities market index. In addition, the SEC adopted changes to the per share table contained in mutual fund prospectuses. The SEC originally proposed these requirements in 1990. A copy of the SEC's release is attached. Set forth below is a summary of the new disclosure requirements. Portfolio Manager Disclosure Requirement - A new item will be added to Form N-1A, the registration statement for mutual funds, to require a mutual fund, other than a money market fund or an index fund, to disclose the name and title of the person or persons employed by or associated with the fund or its adviser "who are primarily responsible for the day-to-day management of the fund's portfolio." If all investment decisions for a fund are made by a committee and no person(s) is primarily responsible for making recommendations to that committee, the fund may state that fact in lieu of identifying the committee members. As originally proposed, funds would have been required to include disclosure about all persons who significantly contribute to the investment advice relied on to manage the fund's portfolio. In response to industry concerns about the scope of the proposal, the Commission adopted a narrower requirement. Updating Requirement - If there is a change in a fund's portfolio manager, the fund must "sticker" its prospectus. The prospectus, stickered to reflect a change in the portfolio manager, must be delivered to new investors in the fund, which includes any current shareholders acquiring additional shares of the fund through cash purchases (other than through a dividend reinvestment plan but including shares purchased through an automatic cash investment plan). Current shareholders who previously reviewed the fund's prospectus need only receive the sticker. Current shareholders who are not new investors could receive the sticker in the fund's next

regular mailing. Management's Discussion of Fund Performance As amended, Form N-1A requires mutual funds, other than money market funds, to include in their prospectuses or, alternatively, in their annual reports a discussion of fund performance. The discussion must consist of both a narrative discussion and a line graph comparing the fund's performance to an index. Unlike the original proposal, if this discussion is included in a fund's annual report, it need not be incorporated by reference into the prospectus. However, funds would be required to disclose in their prospectus that their annual report includes this information and that it will be made available upon request and without charge.

**Narrative Discussion** - The required narrative discussion would be of "those factors, including the relevant market conditions and the investment strategies and techniques pursued by the [fund's] investment adviser, that materially affected the performance of the [fund] during the most recently completed fiscal year." The Institute had objected to the requirement in the original proposal that the discussion also include a self-evaluation of the fund's performance. As noted in the release, the Commission adopted the Institute's alternative language substantially as recommended. (See page 10.)

**Index Comparison** - As revised, Form N-1A requires funds also to provide a line graph comparing the initial account value and subsequent account values at the end of each of the most recently completed ten fiscal years of the fund, assuming a \$10,000 investment at the beginning of the first fiscal year, to the same investment over the same periods in an appropriate broad-based securities market index (such as the S&P 500, the Nikkei Index or the Lehman Corporate Bond Index). The release states that, "A broad-based index is one that provides investors with a performance indicator of the overall applicable stock or bond markets, as appropriate. An index would not be considered to be broad-based if it is composed of securities of firms in a particular industry or group of related industries." (See note 21.) In addition to the required comparison to a broad-based index, funds are urged to compare their performance to other more narrowly-based indexes which reflect the market sectors in which they invest. Funds also must include their standardized one, five and ten year total return figures within or contiguous to the graph.

**Disclosure Regarding Fixed Distribution Levels** Funds that have a policy or practice of maintaining fixed distribution levels must disclose the effect of that policy on the fund's investment strategies and net asset value.

**Per Share Table** Substantial changes were made to the per share table contained in mutual fund prospectuses, which is now called "Financial Highlights", to shorten and simplify the table and to add a line showing the fund's total return during each of the reported periods.

**Sales Literature** The SEC also adopted technical amendments to Rule 34b-1 under the 1940 Act, which governs supplemental sales literature.

**Effective Dates** The effective date for these requirements is July 1, 1993 for most funds. Thus, for funds whose registration statements become effective on or after July 1, 1993 (or series added by a post-effective amendment effective on or after that date), the revisions are effective for prospectuses used on or after that date. The same is true for funds with fiscal years ending on February 28. For all other funds, prospectuses included in post-effective amendments filed on or after July 1 must include the new disclosure. Funds that intend to include the management's discussion in their annual reports must do so in any annual report first distributed to shareholders on or after July 1, 1993. In addition, the new financial highlights table must be included in all annual reports distributed on or after that date.

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