

MEMO# 11692

March 3, 2000

DRAFT LETTER TO SEC REGARDING ANNUAL PROSPECTUS UPDATES

[11692] March 3, 2000 TO: SEC RULES COMMITTEE No. 30-00 RE: DRAFT LETTER TO SEC REGARDING ANNUAL PROSPECTUS UPDATES

At the last committee meeting, we discussed the SEC staff's consideration of an "annual prospectus update," which would be a concise document provided to fund shareholders annually that informs them of material developments and changes in the fund's operations. Instead of developing an annual prospectus update, members favored using the fund profile to provide existing shareholders with updated fund information to support an additional investment in a fund. Attached for your review is a draft letter requesting that the staff pursue allowing the use of the fund profile, rather than an annual prospectus update. Specifically, the letter agrees that it is appropriate for existing shareholders to receive something other than the full statutory prospectus to support additional investments in the same fund. The letter states, however, that creating a new disclosure document would not be the best approach for several reasons, including that a document focusing only on material changes to the fund may not be beneficial to investors because it would present information out of context and thus likely would require the investor also to consult the original prospectus. The letter also states that it would be costly for the Commission to develop an annual prospectus update and for funds to produce and continually update a new disclosure document. The letter suggests that providing funds with the option of sending a fund profile to existing shareholders to support an additional investment decision, in lieu of the full prospectus, would better achieve the staff's goals of reducing regulatory burdens and the costs imposed on mutual fund investors. In particular, the letter states that because the profile is a concise disclosure document that summarizes the critical information necessary to make an investment decision, it would appropriately provide existing shareholders with the information necessary to make an additional investment in the same fund. Please provide your comments on the draft letter by Thursday, March 16 to me by phone: 202/326-5819; e-mail: dvanslyke@ici.org; or fax: 202/326-5839. Doretha VanSlyke Zornada Assistant Counsel Attachment

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