MEMO# 14977

August 1, 2002

ICI SUBMISSION ON RELEVANCE OF SEC CORPORATE DISCLOSURE INITIATIVES TO FREQUENCY OF FUND PORTFOLIO HOLDINGS DISCLOSURE

[14977] August 1, 2002 TO: SEC RULES COMMITTEE No. 63-02 BOARD OF GOVERNORS No. 29-02 RE: ICI SUBMISSION ON RELEVANCE OF SEC CORPORATE DISCLOSURE INITIATIVES TO FREQUENCY OF FUND PORTFOLIO HOLDINGS DISCLOSURE As you know, the ICI has expressed strong opposition to various rulemaking petitions that have been submitted to the SEC requesting that it adopt rules to require mutual funds to disclose their portfolio holdings more frequently than semi-annually. In recent months, the SEC has proposed several rules that would require additional disclosure by publicly-traded companies under the Securities Exchange Act of 1934. Although these developments have arisen independently, we determined that it was important to ascertain whether the policies underlying the SEC's recent Exchange Act proposals would support rule changes that would require mutual funds to disclose their portfolio holdings more frequently. The ICI recently submitted to the SEC the attached memorandum prepared by outside counsel addressing this issue. The memo concludes that the premise underlying the Exchange Act's reporting and disclosure scheme and the SEC's recent initiatives thereunder is generally inapplicable in the context of mutual fund reporting and disclosure. The rules under the Exchange Act are designed primarily to ensure that sufficient information is available in the marketplace to establish the appropriate value of securities issued by publicly-traded companies. In contrast, the pricing of mutual fund shares is governed by specific requirements under the Investment Company Act of 1940. The memo further concludes that requiring more frequent portfolio holdings disclosure by mutual funds is not necessarily consistent with the goals of the periodic reporting and disclosure provisions of the Investment Company Act. These goals, such as providing information to fund shareholders, are best served by disclosure of a fund's investment objectives and the means through which the fund's adviser achieves those objectives – not by disclosure of specific portfolio holdings. Amy B.R. Lancellotta Senior Counsel Attachment 2 Attachment (in .pdf format)