The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

MEMO# 1668

January 19, 1990

SEC STAFF ISSUES GENERIC COMMENT LETTER

- 1 - January 19, 1990 TO: SEC RULES MEMBERS NO. 4-90 ACCOUNTING/TREASURERS MEMBERS NO. 2-90 CLOSED-END FUND MEMBERS NO. 1-90 OPERATIONS MEMBERS NO. 3-90 RE: SEC STAFF ISSUES GENERIC COMMENT LETTER

_____ The Division of Investment Management issued the attached letter to the investment company industry to provide guidance on the filing of registration statements and post-effective amendments. The letter is a compilation of the staff's positions on filing procedures and certain disclosure requirements of mutual funds, closed-end funds and unit investment trusts. (For a more complete discussion of the item concerning unit investment trusts, see Memorandum to Unit Investment Trust Members No. 3-90, dated January 17, 1990.) Summarized below are several of the significant comments included in the letter. Please refer to the letter for a more complete discussion of the staff's views. I. Filing Requirements A. Updating the Registration Statement In connection with filing post-effective amendments under rule 485(a) of the Securities Act of 1933 (the "Act"), the staff has requested that registrants use the selective review procedures to expedite the processing of post-effective amendments. The appropriate level of review will then be determined by the branch based on the available information. The staff also reminded registrants that filings made under 485(b) must include the appropriate certification on the signature page and, if applicable, the requisite counsel's representation concerning the eligibility of the registrant to rely on paragraph (b) of the rule. Furthermore, the staff noted that the facing page should be marked to indicate that the filing is being made under paragraph (b). B. 24f-2 Notices The staff reiterated that rule 24f-2 requires that 24f-2 Notices be filed within two months (not 60 days) after the close of the fund's fiscal year to be able to net redemptions against purchases in order to offset the fee. For example, the Commission must receive the Notice from a fund that has a December 31 fiscal year-end by February 28 for the fund to be able to net against sales in calculating the fee. The staff also - 2 - commented that all 24f-2 Notices must include an opinion of counsel as to the legality of the securities being registered. II. Disclosure Comments A. Risk Disclosure The staff noted that the discussion in the prospectus of the risk factors associated with the fund should appear under the caption "Risk Factors," as opposed to "Special Considerations." Funds that invest in high-yield bonds are advised to include a discussion of the risk factors inherent in such investments in a manner consistent with the staff's views set forth in its October 3 letter concerning the appropriate disclosure of those risks. B. Valuation and Liquidation Funds are reminded that matrix pricing used to value debt securities should not ignore a reliable market quotation of an actively traded security. The staff also expressed the view that it considers municipal lease securities to be illiquid and reminded funds that they may invest only 10% of its assets in illiquid securities. The letter further states that funds must clearly disclose its

policy of investing in illiquid securities and its procedures for valuing securities. For guidance on this disclosure, the staff refers registrants to Guides 11, 12, 13 and 28 to Form N-1A. C. Account Transfers The letter requires certain disclosure in the prospectus concerning the transferring of fund shares between broker/dealer street name accounts. If such shares cannot be transferred, then the prospectus must disclose the alternatives available to the shareholder. Disclosure is also required of the impact, if any, on the ability of a proprietary fund shareholder to transfer shares to a broker/dealer which has not entered into a selling agreement with the fund or to purchase additional shares after an account has been transferred. D. Contingent Offerings Funds which offer shares on a contingency basis are reminded that they must satisfy the requirements of rules 10b-9 and 15c2-4 under the Securities Exchange Act of 1934. These rules require, among other things, that a subscriber's funds be placed in a separate bank account and also limit the types of investments that can be made with the funds in the bank account pending transfer to the issuer or refund to the subscriber. - 3 - E. Redemptions The letter requires funds that offer a telephone redemption privilege to include a complete discussion in the prospectus of the privilege including the procedures for redeeming by telephone and the fees associated with doing so. F. Dividend Reinvestment Plans Funds are required to clearly disclose the amount of any sales load imposed upon the reinvestment of dividends. Although the example in the per share table should be prepared without reflecting the sales load on reinvested dividends, the narrative following the table must disclose that the sales load is not reflected in the example and that the amounts would be increased if it had been included. G. Prospectus Simplification The letter encourages funds to review the disclosure in their prospectuses to identify areas in which it may be reduced or deleted. The staff identified three specific areas of disclosure on which funds should focus. These areas of disclosure concern repurchase agreements, options and futures transactions and arrangements subject to the Glass-Steagall Act restrictions. III. Closed-End Funds A. Discount The staff is requiring all closed-end funds to prominently disclose in the prospectus summary that shares of closed-end funds frequently trade at a discount from net asset value and to discuss the risks of purchasing shares in an initial offering which may trade at a discount in the secondary market. The staff also refers registrants to the release issued last summer proposing revisions to Form N-2 for guidance on disclosure matters relevant to their offerings. B. Rule 430A The letter states that during the registration process, the staff will seek certain information from funds relying on rule 430A under the Act such as what data will be omitted from the final pre-effective amendment. The staff also notes that funds relying on rule 415 under the Act must furnish the undertaking required by item 512(a) of Regulation S-K concerning the filing of a post-effective amendment, if necessary. Amy B. Rosenblum Assistant General Counsel Attachment