

MEMO# 6312

October 19, 1994

CHAIRMAN LEVITT'S SPEECH CONCERNING PROSPECTUS SIMPLIFICATION AND SUMMARY PROSPECTUS PROPOSAL

October 19, 1994 TO: BOARD OF GOVERNORS NO. 107-94 MEMBERS - ONE PER COMPLEX
NO. 79-94 PUBLIC INFORMATION COMMITTEE NO. 35-94 SEC RULES MEMBERS NO. 73-94
STATE LIAISON COMMITTEE NO. 58-94 RE: CHAIRMAN LEVITT'S SPEECH CONCERNING
PROSPECTUS SIMPLIFICATION AND SUMMARY PROSPECTUS PROPOSAL

In a recent address, SEC Chairman Arthur Levitt expressed concern about the length and complexity of mutual fund prospectuses. Chairman Levitt stated that "[i]nvestors are not as informed as they should be" and that "there are misconceptions even about such products as mutual funds." He partially attributed this problem to the fact that "[o]ur passion for full disclosure has created fact-bloated reports, and prospectuses that are more redundant than revealing." Chairman Levitt announced several measures to address investor confusion, including a reorganization of the SEC's Consumer Affairs Office, the establishment of a toll-free Consumer Information Line at the Commission, and issuance of an SEC brochure about mutual funds. Chairman Levitt also announced initiatives to enhance the clarity of mutual fund prospectuses and a prototype effort to develop a prospectus summary or (in his words) "Profile Prospectus."

1. Clear Language In discussing the challenge of prospectus simplification, Chairman Levitt acknowledged that the SEC, its fellow regulators, and the courts have "contributed to the situation" and noted that much of the disclosure "has to do with well-founded legal concerns." On the issue of clarity, however, Chairman Levitt stated that the "ball is now in the industry's court," and he encouraged funds to "compete for clarity of communication." Chairman Levitt stated that he has asked the SEC staff to reevaluate the process by which it comments on prospectuses, emphasizing to the staff that it needs "to limit the number and nature of the comments" given. He also announced several "incentives" for funds to write clearer prospectuses. The Commission is instituting an expedited review process for funds that file a prospectus they want to make more readable. At the same time, he put the industry "on notice" that the staff will "feel free to talk about the clarity of language used" in fund registration statements.

2. Concise Disclosure Chairman Levitt observed that "every day" and "in good faith" the mutual fund industry "wrestles" with the problem of concise prospectus disclosure. He also stated that, while he had initially supported the SEC's pending summary prospectus proposal, he has concluded (based on the Commission's investor focus groups) that investors want "a single-page summary" in addition to the full prospectus. Consequently, Chairman Levitt announced a new initiative, dubbed the "Profile Prospectus," which is intended to provide a

concise summary for use in connection with the full prospectus. The summary will be modeled on the proposed summary prospectus, "with standard information in a standard format." Chairman Levitt announced that seven mutual fund groups have "stepped forward to pilot the Profile Prospectus." A copy of the Chairman's address is attached. Paul Schott Stevens General Counsel Attachment

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