

COMMENT LETTER

May 20, 1996

Comment Letter on Profile Prospectus Research to SEC, May 1996

May 20, 1996

Barry P. Barbash
Director
Division of Investment Management
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Mr. Barbash:

On behalf of the Investment Company Institute¹ and the eight mutual fund groups² that have participated in the project, I am very pleased to submit research findings and Institute recommendations concerning the profile prospectus.

On August 1, 1995, the Commission approved use on a one-year trial basis of prototype versions of a profile prospectus that were developed in compliance with Commission instructions. During this trial period, the profile prospectus was to be provided to investors together with the existing mutual fund prospectus. Also during this period, the Institute and its members agreed to undertake research to determine how investors assess the profile prospectus and their preferences concerning the format and contents of mutual fund disclosure. Chairman Levitt stated that such research would help the Commission determine, among other things, "what, if any, permanent changes to fund disclosure rules should be made" and "whether investors should be able to rely on a stand-alone profile . . . in deciding to invest in funds."³

This letter will first, summarize our research results; second, set forth our ideas about the ways in which the profile prospectus might be improved; and third, present our suggestions concerning future Commission action. The Institute's and its members' research findings are contained in the enclosed two-volume report, entitled "The Profile Prospectus: An Assessment by Mutual Fund Shareholders" (the "Profile Assessment"). The first volume of this report contains the results of a broad-based investor survey commissioned by the Institute. The second volume details the findings of additional quantitative research conducted by participating fund complexes. Also enclosed is a generic form of the profile prospectus that has been prepared to reflect the Institute's recommendations on the contents and use of the document.

I. Overview

The research of the Institute and the fund complexes that participated in the profile project provides strong evidence that the profile prospectus does "serve as a model for effective disclosure."⁴ According to this research, substantially more shareholders are likely to actually read the profile prospectus than the traditional prospectus because the profile provides the information they need more succinctly, in a way they can more readily understand, and in a format they can more easily use. Investors prefer the profile prospectus to the existing long-form prospectus for its writing style, presentation, and usefulness for locating information, comparing mutual funds and making investment decisions.

After consulting with Institute members and outside experts on mutual fund disclosure and related issues, the Institute and the participating fund groups have determined that the disclosures contained in the profile prospectus could be improved still further. Consequently, the form of profile prospectus that we recommend to the Commission today incorporates several enhancements over the prototypes currently in use. These enhancements include, among others, an index comparison, more information about a mutual fund's portfolio manager, and a clear statement concerning the risk of loss from investing in a fund.

In light of the importance to investors of clear and concise prospectus disclosure and their favorable assessment of the profile prospectus, the Institute hopes that the Commission will pursue the profile prospectus initiative by seeking public comment on proposed rulemaking. In particular, we recommend that the Commission issue for public comment a proposal that would:

- carefully prescribe the format and contents of the profile prospectus, and incorporate a variety of important enhancements to the existing document;
- authorize mutual funds to distribute the profile prospectus to investors, subject to strict conditions specified by the Commission, accompanied by an application that investors may use, at their option, either to purchase shares or to order the long-form prospectus; and
- require that all investors in fact receive the long-form prospectus no later than the time they receive a confirmation of purchase.

The Institute believes that these actions by the Commission will better serve the interests of investors by providing to them mutual fund disclosure in a form that they need and will use. We also recommend that the Commission propose rules to simplify the disclosure requirements applicable to the traditional long-form prospectus. The public comment process will provide all interested parties with an opportunity to provide their own views concerning mutual fund disclosure to the Commission.

II. The Profile Assessment: Key Findings

A. Research Methodologies

The Institute's research was performed by an independent consultant, Response Analysis Corporation ("RAC") of Princeton, New Jersey. Between November 1995 and March 1996, RAC conducted in-person interviews with 1,004 randomly-selected U.S. investor households who had purchased at least one mutual fund in the previous five years. The survey respondents had demographic characteristics similar to mutual fund shareholders

nationwide.

Mutual fund complexes participating in the profile project engaged in quantitative research concerning how their customers and, in some cases, investment advisers, brokers, and other financial professionals, assess the effectiveness and usefulness of the profile prospectus. The approaches taken by the fund complexes varied considerably. Some conducted surveys of randomly selected prospective investors who had been sent a profile prospectus along with a long-form prospectus, while others included a control group that received the long-form prospectus but not the profile prospectus.

The research performed by the Institute and participating member fund complexes provides a unique body of empirical information for the Commission's consideration in connection with its statutory mandate to ensure that investors receive "adequate, accurate, and explicit information, fairly presented, about mutual funds."⁵ To our knowledge, the Profile Assessment represents the most extensive survey ever conducted of U.S. investors concerning their own needs and preferences with respect to mutual fund disclosure.

B. Summary of Findings

1. Investors Need and Want Clear and Concise Disclosure

The Profile Assessment supports Chairman Levitt's observation that "what investors request time and time again is a fund prospectus that they can read, in language they can understand, in a form they can follow."⁶

According to the Profile Assessment, investors prefer more concise disclosure, such as that provided by the profile prospectus. Seventy percent of recent fund investors surveyed by the Institute stated that the profile prospectus provides the right amount of information. Only 53% gave the same rating to the long-form prospectus; 41% stated that the long-form prospectus contains too much information. Even 36% of those who actually used the long-form prospectus in their most recent purchase stated that it provides too much information.

These findings are substantiated by the research of Institute members. For example, American Express found that prospective investors gave higher ratings to the profile prospectus on its length, layout and organization, than to the long-form prospectus. According to Capital Research's survey of investment professionals, 84% stated that the profile prospectus provides information that helps investors compare funds, while only 10% came to this conclusion with respect to the traditional prospectus. (Vol. II at 26.)

2. The Long-Form Prospectus Does Not Adequately Address the Needs of Many Investors

The Institute's survey strongly suggests that most investors are not "impulse" purchasers of mutual funds. Seventy-four percent of recent purchasers stated that they review a lot of information before purchasing and 72% indicated that they will not buy a mutual fund unless several sources indicate that it is a good investment. Seventy-four percent stated that they compare several mutual funds before making a purchase decision.

Nonetheless, despite long efforts of the Commission to simplify prospectus disclosure, many investors simply do not use the long-form prospectus when they make a purchase decision. According to the Institute's survey, 50% of all recent fund investors did not consult a long-form prospectus for any purpose before making their most recent purchase. In fact,

according to prior Institute research, only 26% of all mutual fund shareholders (a larger universe including but not limited to recent purchasers) used the long-form prospectus as a source of information about a mutual fund.⁷ In the current Institute survey, 57% of respondents placed the existing mutual fund prospectus at the middle or bottom of their preferred information sources.

The Profile Assessment makes clear why so many investors avoid the traditional mutual fund prospectus: they find it difficult to locate and understand information it contains. For example, 38% of recent fund purchasers surveyed by the Institute stated that it was difficult to locate information on mutual fund risks and 37% found that information difficult to understand. Thirty percent stated that it was difficult to locate information on the types of securities in which the fund invested and 36% stated that it was difficult to understand this information once they found it.

The Profile Assessment thus strongly suggests that existing mutual fund prospectuses simply do not provide disclosure in a form that many investors want and need in order to help them make their purchase decisions.

3. Investors Would Welcome the Profile Prospectus

Mutual fund shareholders surveyed by the Institute gave a strongly favorable assessment of the profile prospectus.

Most shareholders—including, in the Institute's survey, 62% of those who consulted the traditional prospectus in their most recent purchase—stated that the profile prospectus provides the right amount of information.

Shareholders find the profile prospectus easier to use than the long-form prospectus. For example, 56% of recent purchasers surveyed by the Institute found it very easy to understand information in the profile prospectus on investment risks. But only 21% found it very easy to understand this information in the long-form prospectus.

The profile prospectus appears to be particularly useful to investors who find the long-form prospectus too complex. For example, according to the Institute's survey, of those recent purchasers who stated that it was very difficult to understand risk disclosure in the long-form prospectus, 33% found it very easy to understand risk disclosure in the profile prospectus.

These results also are reflected in Institute members' research:

Investors give high marks to the layout, organization, length and clarity of the profile prospectus. For example, in Scudder's survey, more than 80% of investors indicated that the profile prospectus is easy to read, clearly written, user-friendly, understandable, well-organized, and well-focused on key issues. (Vol. II at 91.) Vanguard found that 88% of investors gave the profile prospectus an overall evaluation of excellent or very good. (Vol. II at 102.)

Investors find the information presented in the profile prospectus to be useful for making investment decisions. For example, Dreyfus found that 49% who received the profile prospectus said it is very useful for making investment decisions. (Vol. II at 44.) Fidelity found that at least 90% thought the discussion of fund performance, goals and risks is useful. (Vol. II at 79.)

More investors read the profile prospectus than the long-form prospectus. For example, American Express found that 57% of respondents said they are very likely to read the profile prospectus, while only 21% said they are very likely to read the long-form prospectus. (Vol. II at 9.) According to Vanguard's survey, 57% of investors stated that the profile prospectus is more useful in evaluating a fund than the long-form prospectus. (Vol. II at 101.)

The results of the research of the Institute and the participating fund groups thus provide convincing evidence that the profile prospectus would, in line with the benchmark laid down by Chairman Levitt, make it easier for investors "to get right to the key issues they need to know before investing."⁸ Indeed, most shareholders—including those who consult the long-form prospectus—indicated they would like to receive the profile prospectus either alone or with the option to receive the long-form prospectus. Sixty-six percent of recent purchasers surveyed by the Institute stated that they would like to receive the profile prospectus alone or with the option to order the long-form prospectus.

This result is consistent with the findings of Institute members' research. In American Express' survey of current shareholders, for example, 62% preferred to receive the profile prospectus, either alone or with the option of requesting a long-form prospectus. (Vol. II at 10.) In Fidelity's survey, 61% of respondents favored receiving the profile prospectus with a toll-free number through which they could order the long-form prospectus. (Vol. II at 81.)

III. Future Commission Action: Proposing Rules for Public Comment

The profile prospectus initiative begun by Chairman Levitt in October 1994 has had salutary results and should be pursued by the Commission. Based on the results of the Profile Assessment, extensive consultation with Institute members, discussions with outside experts on mutual fund disclosure and related areas, and actual experience with the profile prospectus to date, the Institute recommends that the Commission propose, for public comment, rules that would prescribe the contents and format of the profile prospectus as a concise disclosure document intended to assist investors in deciding on fund investments and in comparing one fund with another. We also recommend that the Commission propose, for public comment, rules that would permit the distribution of the profile prospectus to investors accompanied by an application that investors may use, at their option, either to purchase shares or to order the long-form prospectus. The Institute's recommendations concerning the contents and use of the profile prospectus are discussed below. Finally, as noted above, we recommend that the Commission pursue rulemaking to simplify the traditional prospectus, as part of an overall effort to improve fund disclosure.

A. The Contents of the Profile Prospectus

1. Current Contents of the Profile Prospectus

In responding to Chairman Levitt's profile prospectus initiative, the Institute and the eight fund complexes that participated in the project, working with the Commission staff and NASAA representatives, began with a "blank slate." Rather than merely identifying what information might be omitted from the existing prospectus, consideration was given to precisely what types of information every mutual fund investor should have before purchasing. This approach produced the prototype disclosure documents now in use.

The current prototypes incorporate numerous innovations not found in the long-form prospectus:

- a. Eleven items of disclosure, clearly identified. All profiles must provide the same eleven items of critical information, clearly identified with appropriate headings. The Profile Assessment indicates that clear identification of the items of disclosure helps shareholders to locate more easily the information they need to make an investment decision.
- b. Standardized order of presentation. The items must be presented in a mandated sequence. The Profile Assessment indicates that this requirement better enables investors not only to locate critical information, but to use the profile prospectus to compare different mutual funds.
- c. Exclusion of information that is not required. This requirement (which is not practical for the long-form prospectus because of the multiple purposes that it serves both for prospective investors and as an "owner's manual" for existing shareholders) furthers the standardized format of the profile prospectus, enhances the ability of investors to use the profile to compare mutual funds, and helps prevent the "disclosure creep" that has afflicted the long-form prospectus.
- d. Quarterly updating of performance information including, for money market funds, the 7-day yield and a toll-free number to obtain the current 7-day yield. The Institute's survey found that investors are most concerned about fund performance, with 79% stating they obtained information about performance when they made their most recent purchase. The yield disclosure and toll-free telephone number will enable investors to obtain current performance information about money market funds. The information in the profile prospectus would have to be updated quarterly, to ensure that yield and other performance data are as current as practicable.
- e. A bar chart that depicts the variability of a mutual fund's annual total returns over a ten-year period. According to the Institute's survey, 68% of respondents evaluated fund risks before making their most recent purchase. In this regard, the Institute's recent study of risk disclosure methods indicates that a ten-year graphical presentation of fund returns, when coupled with good narrative disclosure, will convey information about fund risks in a fashion that will assist a broad range of investors most effectively.[9](#)

2. Enhancements to the Contents of the Profile Prospectus

The Commission, the Institute and the participating fund complexes envisioned that, following a year's research and evaluation of the existing profile prospectus, the profile instructions approved by the Commission in August 1995 might be refined further. The Institute believes a variety of enhancements are called for in order to make the profile prospectus as informative to investors as possible, while preserving its character as a concise and understandable document that investors actually will use. Accordingly, we recommend that the Commission propose for public comment rules concerning the contents of the profile prospectus that would incorporate the following important enhancements to the document:

- a. A comparison of the fund's 1, 5 and 10-year total returns to the returns of either a broad-based securities market index or an appropriate fund index and, at the fund's option, the Treasury bill rate. A profile prospectus might, for example, provide the following table with respect to a fixed-income fund:

1 year 5 year 10 year XYZ Fund 8.2% 8.6% 7.3% Lipper Fund Index 7.5% 7.9% 6.8%
Three-month T-Bill 5.3% 4.3% 5.5%

Funds would be permitted to include a comparison to an appropriate index of mutual fund performance in lieu of the broad-based securities market index called for by Form N-1A, because a mutual fund index avoids many of the problems that can occur when funds are required to use the broad-based market index. These problems arise from the different natures of broad market indexes and mutual funds: the former, for example, do not have operating expenses and do not maintain cash positions to meet redemptions.

Consequently, the Institute believes that indices of mutual fund performance would generally provide a more meaningful comparison. Nevertheless, to permit mutual funds to maintain consistency with Form N-1A, mutual funds would be permitted to use the index specified in that form instead.¹⁰ Inclusion of the Treasury bill rate, at the fund's option, is intended to provide investors a risk-free rate of return for purposes of comparison

b. Disclosure concerning the fund's portfolio manager. Mutual funds would have to provide a summary of information from the long-form prospectus concerning the name of the portfolio manager, the length of time that the portfolio manager has served in that capacity, and the portfolio manager's business experience during the past five years. Consistent with the requirements applicable to the long-form prospectus, money market funds and index funds would not have to make this disclosure, and when investment decisions are made by a committee, the profile prospectus could state this fact in lieu of identifying the committee members. Similarly, in order to ensure that the profile is not unnecessarily lengthened, if three or more persons or subadvisers each manage a portion of the portfolio the profile prospectus could state this fact rather than identifying each person or subadviser.

c. A clear statement that loss of money is a risk of investing in the fund. The specific disclosure of this fact could vary depending upon the type of mutual fund. For example, a money market fund would disclose that there is no guarantee that it will maintain a \$1 per share price.

d. Risk disclosure specific to the type of fund, focusing on overall portfolio risks rather than risks of particular portfolio securities. The Commission staff has suggested, and the Institute agrees, that the critical issue for investors is the risk presented by a mutual fund's portfolio overall, rather than the risk characteristics of individual securities held by the fund. Disclosure of securities-specific information has unduly lengthened the long-form prospectus, without significantly enhancing investor understanding of the risks of investing in a mutual fund. Consequently, disclosure in the profile prospectus would be required to focus on overall portfolio risks. It would not consist simply of generic disclosure, such as the fact that the principal value of the shares may fluctuate.

e. For equity funds, specifically required disclosure of the criteria used for making investments and, for fixed income funds, disclosure of any general policies concerning average maturity or duration and credit quality. The investment strategies section should be modified to better ensure that the disclosure provides a basis for investors to distinguish the different investment strategies of various mutual funds.

f. A prominent legend stating that the profile "contains key information about the fund" and that if the reader would like more information before investing, the reader should consult the mutual fund's long-form prospectus. This legend would be refined to make clearer to investors that they have an opportunity to read the long-form prospectus before investing and that the long-form prospectus contains more information about the fund. The legend

would provide a telephone number where investors could obtain the long-form prospectus at no cost.

g. In the same legend, a statement that, for details about a mutual fund's holdings or recent investment strategies, investors should review the mutual fund's most recent annual or semiannual report. The legend, which would alert investors to information contained in the mutual fund's shareholder reports, also would provide a telephone number where investors could obtain those reports at no cost. The Institute considered, but determined not to suggest, that the profile prospectus be required to disclose information about a mutual fund's recent holdings or investment strategies. Disclosure of this information typically occupies several pages of the annual report and could unduly lengthen and complicate the disclosure contained in the profile prospectus. Moreover, because mutual funds are actively managed, this information could be stale by the time it is included in the profile prospectus. The proposed legend would, however, alert investors who are interested in this information to the fact that it is contained in the mutual fund's annual and semiannual reports.

h. For money market funds (as for long-term funds) presentation of 1, 5 and 10-year performance. Currently, neither the prototypes of the profile nor the long-form prospectus require money market mutual funds to present this performance data. When compared to similar information for long-term funds, however, this information would better inform investors (such as retirement plan participants) about the relative risks and rewards of investing in various types of funds for these time periods. For this reason, it should be required in the profile prospectus of money funds.

i. Disclosure concerning the tax consequences of distributions. This disclosure may help investors anticipate certain tax consequences of investing in a mutual fund (e.g., by determining whether distributions are likely to be taxed as capital gains or ordinary income).

j. On the accompanying application, a toll-free number that investors can call (or a blank they can mark) to order the long-form prospectus, with text stating that the investor does not wish to invest but would like to order the long-form prospectus. The toll-free number or blank and text must be adjacent to, and in the same format and type as, the blank and text for indicating interest in investing. Any fund that receives a request for a long-form prospectus from the reader of a profile prospectus would have to deliver the long-form prospectus to that person within three business days.

k. A requirement that mutual funds, to the extent possible, use language that a typical investor would understand and avoid the use of technical terms and the relegation of critical information to footnotes. This requirement would serve to emphasize the necessity of presenting critical information with sufficient prominence and in language that investors can readily understand.

In its original form approved by the Commission, the profile prospectus has received high marks from fund investors. We are hopeful that our proposed enhancements will make the profile prospectus even more useful to the mutual fund investing public.

B. Future Use of the Profile Prospectus

The Institute recommends that the Commission propose for public comment rules that would authorize (but not require) funds to prepare profile prospectuses and that would permit investors, under strict conditions specified by the Commission, to have the option to

purchase fund shares from the profile prospectus or to order the long-form prospectus. The conditions recommended by the Institute for this purpose would include the following:

The profile prospectus would be filed with the Commission at least twenty days before use. Together with the fund's long-form prospectus, the profile prospectus would be subject to review and comment by the Commission staff. By subjecting the profile prospectus to a twenty-day pre-filing requirement, the rule would provide the Commission staff with an opportunity to review the document prior to use. The Commission staff thus would be able to review the profile prospectus in tandem with the long-form prospectus to help assure that the information in the two documents is consistent and the profile prospectus complies with Commission instructions.

The contents of the profile prospectus would be subject to detailed Commission instructions. In particular, as recommended above, the Commission would adopt a form that mandates eleven specific categories of information, specifies the sequence and general form in which such information is to be presented, and excludes all information not so required. Commission instructions would include, among other things, the following requirements:

Each profile prospectus would contain a prominent legend referring investors who desire additional information to the fund's long-form prospectus (as well as to the fund's annual and semiannual reports). The legend would alert investors who are interested in more detailed information, and who may wish to review it before investing, to the presentation of this information in the long-form prospectus and in shareholder reports.

In the accompanying application, the request to purchase shares, and the means for obtaining a long-form prospectus prior to investing (e.g., by calling a toll-free telephone number), would be disclosed with equal prominence. The presentation in the application thus would alert investors again that they may choose either to purchase shares or order the long-form prospectus.

Funds would be required to comply promptly with shareholder requests for long-form prospectuses prior to investing. In particular, funds would have to deliver the long-form prospectus (as well as shareholder reports) to any person within three business days of receiving a request.

All shareholders, without exception, would receive the fund's long-form prospectus not later than the time they receive confirmation of their purchase. The long-form prospectus contains information, such as detailed disclosure concerning redemption procedures, that makes it useful as a comprehensive "owner's manual" for existing shareholders. Consequently, all investors should and would receive the long-form prospectus no later than the time they receive their confirmation statement.

In accordance with the Institute's recommendations, by use of the profile prospectus "at an investor's option," we mean distribution of the profile prospectus to investors accompanied by an application that investors may use, at their option, either to purchase shares or to order the long-form prospectus.

C. Benefits of Proposed Commission Rulemaking

A rule proposal by the Commission to authorize use of the profile prospectus at an investor's option—subject to these substantial safeguards—would be most appropriate. First, in light of the importance of mutual fund disclosure policy, the Commission could

expect to receive a considerable number of comments concerning mutual fund disclosure in general and the profile prospectus in particular. This comment process is likely to elicit useful suggestions that would assist the Commission as it considers possible further actions with respect to the profile as well as the traditional prospectus and, more generally, how to devise mutual fund disclosure requirements to help investors as much as possible.

Through a rule proposal, the Commission could consider how to ensure that all investors—including those who currently use the long-form prospectus—have readily available to them the same scope and detail of information that they receive today. According to the research results yielded by the Profile Assessment, the availability of a separate profile prospectus for use at an investor's option would not detract from the disclosure currently available to investors, but would augment in many respects the effectiveness of the disclosure that investors currently receive. The comment process would assist the Commission to determine whether, as the Profile Assessment indicates, the profile prospectus provides the right amount of information to investors.[11](#)

By proposing rules on the profile prospectus, the Commission also would receive comments that would help it in ensuring that the profile prospectus is crafted most effectively to serve the needs of investors in making investment decisions. By contrast, the existing prospectus is a multipurpose document that necessarily contains information concerning not only investment in a fund, but also matters of special concern to all those existing shareholders who receive it annually. The multifaceted nature of the traditional prospectus—and its consequent length and complexity—inevitably compromises the usefulness of the document to investors in making their investment decisions. Regulatory experience of over 50 years shows that, for these reasons, the traditional prospectus simply cannot be crafted in a form that is optimal for investment decision making by all investors who have widely divergent needs and backgrounds.

Moreover, the public comment process would provide the Commission information to help it determine whether, as the Profile Assessment suggests, the profile prospectus would help investors to compare one fund with another. Investors currently are confronted with the choice, for example, of more than 725 different growth funds and over 330 government bond funds. The concise presentation of information in the profile prospectus and its standardized format should enhance the ability of investors to make a more informed choice of the particular funds, among many, that best suit their individual needs and preferences. This issue is especially important in the context of the retirement plan market. Many retirement plans offer employees a wide variety of investment options, which can complicate the process of choosing a specific fund investment. The availability to plan participants of several profile prospectuses with which to compare investment options (as opposed to traditional prospectuses that are long and unwieldy for such purpose) would greatly help participants to make informed investment decisions.[12](#)

In addition, the comment process would permit the Commission to explore whether the availability of the profile prospectus would serve the needs of brokers, advisers and other financial professionals as well as their clients. The studies conducted by American Express and Capital Research, for example, suggest that financial professionals regard the profile prospectus as an effective tool and would use it to help inform their customers better about the important attributes of various mutual funds.

Finally, the comment process would permit the Commission to determine whether, if the profile prospectus were authorized for use at the investor's option, this would help assure the widespread development and distribution of profile prospectuses to investors. The

Institute and the eight participating fund groups agreed during the one-year trial period to develop and to test the profile prospectus with a limited number of funds by providing investors both the profile and the long-form prospectus. There are very substantial costs and burdens entailed in providing two disclosure documents in response to every investor inquiry (including the very many inquiries that do not result in fund investments). For this reason, it would be impractical for the industry at large to continue on this basis. If the profile prospectus initiative is to gain wide acceptance within the mutual fund industry, a different approach than that taken during the trial period clearly will be necessary.

In sum, a compelling case exists for the Commission to propose rules and seek public comment on authorizing use of the profile at the investor's option. Most important, however, is the fact that use of the profile prospectus on this basis appears to be widely favored by investors themselves. As stated above, the Institute's research found that 66% of recent fund purchasers prefer to receive the profile prospectus either alone or with an option to receive the long-form prospectus upon request before investing.

The Institute also urges that the Commission persist in its efforts to simplify the long-form prospectus. Even if the Commission were to authorize use of the profile prospectus at an investor's option, the traditional prospectus will remain a useful tool for existing shareholders, including those many investors who are able to use it effectively in making their investment decision. It is therefore imperative that the Commission continue to work to improve the traditional prospectus.

IV. Conclusion

The Institute recognizes that mutual fund disclosure today is a matter of considerable national importance and poses issues of vital interest to the 38 million Americans who use mutual funds to meet their retirement and other financial needs. For that reason, we have sought to respond to Chairman Levitt's initiative by elaborating our concept of the profile prospectus as a clear and concise disclosure document for use by investors in making their investment choices, and by conducting the detailed and substantive research and analysis he requested.

If you have any questions concerning the Profile Assessment or our regulatory recommendations, please do not hesitate to call me, or Craig Tyle (at 202/326-5815) or Tom Selman (at 202/326-5819) of the Institute staff.

Sincerely,

Paul Schott Stevens
Senior Vice President
General Counsel

Enclosures

ENDNOTES

1 Investment Company Institute is the national association of the American investment company industry. Its membership includes 5,876 open-end investment companies ("mutual funds"), 448 closed-end investment companies and 10 sponsors of unit investment trusts. Its mutual fund members have assets of about \$2.994 trillion, accounting for approximately 95% of total industry assets, and have over 38 million individual

shareholders.

2 The eight Institute member fund groups that participated in the profile prospectus project are the following:

American Express Financial Corporation
Bank of America N.T. & S.A.
Capital Research and Management Company
The Dreyfus Corporation
FMR Corp. (Fidelity)
Scudder, Stevens & Clark, Inc.
T. Rowe Price Associates, Inc.
The Vanguard Group, Inc.

3 Remarks by Chairman Arthur Levitt at Press Conference to Announce the Distribution to Investors of the "Profile Prospectus" (July 31, 1995).

4 Id.

5 Investment Company Act § 1(b)(1).

6 Remarks by Chairman Arthur Levitt, *supra* n. 3.

7 See Investment Company Institute, *Piecing Together Shareholder Perceptions of Investment Risk* (Spring 1993) at page 26.

8 "Taking the Mystery Out of the Marketplace: The SEC's Consumer Education Campaign," Remarks by Chairman Levitt Before the National Press Club 12 (October 13, 1994).

9 See Investment Company Institute, *Shareholder Assessment of Risk Disclosure Methods* (Spring 1996). The Institute's risk disclosure survey examined how shareholders assess three disclosure approaches: (1) narrative disclosure; (2) the ten-year bar graph, together with a presentation of a fund's 1, 5 and 10-year average annual returns; and (3) quantitative risk measurements (in particular, standard deviation, beta and duration). The survey found, among other things, that investors are far more confident of their ability to use the bar graph and narrative disclosure to evaluate fund risk than any of the quantitative risk measurements. The Institute's risk survey supports the approaches to risk disclosure that are reflected in the profile prospectus.

Last year the Commission proposed to require that money market fund prospectuses provide a ten-year bar chart of total return, in lieu of the financial highlights table. See Investment Company Act Release No. 21216 (July 19, 1995). The Institute continues to strongly support this proposal and recommends that it be extended to all mutual funds. See Letter from Paul Schott Stevens, General Counsel, Investment Company Institute, to Jonathan G. Katz, Secretary, SEC (September 27, 1995) (commenting on the Commission's money market fund proposal).

10 The Institute also considered, but rejected, suggesting that the index or benchmark comparison be included within or adjacent to the bar graph. We believe that such a comparison would unnecessarily clutter the bar graph and undermine its effectiveness, particularly since different mutual funds may employ different indices.

11 The comment process also should assist the Commission in its consideration of how the

profile prospectus and the long-form prospectus should stand in relationship to one another. By its very nature, the profile prospectus will be a more concise or "summary" disclosure document than the long-form prospectus. In light of the important purposes of the profile prospectus, to provide clear and usable disclosure to investors to inform their investment decisions, we believe that the Commission should not foreclose the possibility that funds be permitted, for example, to incorporate by reference into the profile prospectus the more detailed information contained in the long-form prospectus. These and other issues would be appropriate to explore in the comment process.

12 At the end of 1995, assets in 401(k) plans, under which participants typically bear responsibility for the investment of their accounts, were an estimated \$675 billion. Assets have grown at a 17.85% rate since 1986 and growth is expected to be rapid in coming years. Over 14.5 million plan participants are believed to hold mutual funds in their accounts. The Commission staff has provided no-action assurances for the use of a simplified disclosure statement under Rule 482 of the Securities Act of 1933, in the defined contribution plan market. See Fidelity Institutional Retirement Services Company (April 5, 1995).