

SEC Proposes Improved Approach to Mutual Fund Disclosure

November 16, 2007

At an open meeting yesterday, the Securities and Exchange Commission (SEC) voted unanimously to seek public comments on proposed amendments to Form N-1A, the mutual fund registration form, and Rule 498 under the Securities Act of 1933. These amendments are designed to ensure that investors receive a user-friendly summary of the key information needed to make an informed investment decision. The changes encourage funds to use a layered format to allow investors the option of accessing additional information on a particular topic. The proposed amendments continue the SEC's effort, as in the Internet proxy rules, to use the Internet to simplify delivery of required communications and reduce costs.

The foundation of the proposals is the creation of a "summary prospectus" that would present specific information in a specific order. The summary must be updated at least quarterly. The information includes a fund's:

- Investment objective;
- Costs;
- Principal investment strategies and risks;
- Performance;
- Top 10 portfolio holdings;
- Investment adviser and portfolio manager(s);
- Purchase and sale procedures;
- Tax consequences of owning fund shares; and
- Financial intermediary compensation.

Each summary prospectus is only permitted to describe one fund, even if, as typically occurs, the fund is part of a multifund investment company. This is a change from the mutual fund profile now permitted by Rule 498 that is permitted to describe multiple funds. In order to keep the summary prospectus short and facilitate its use as a method of easily comparing funds, the summary cannot contain any information beyond the required information.

A crucial element of the proposals is that, unlike the mutual fund profile, providing the summary prospectus will meet a fund's securities law prospectus delivery requirements. To address industry concerns about possible liability because the summary prospectus omits information that is in the fund's statutory prospectus and/or the statement of additional information, the summary can incorporate by reference those documents. A fund will also be required to post the summary, the full statutory prospectus, shareholder reports, and other information on an Internet website. As with other information provided on the Internet, a fund must provide a paper copy upon request.

The Form N-1A amendments will require that the statutory prospectus contain a summary section at the front containing the same categories of information in the same order as in the new summary prospectus.

Comments on the proposals will be due 90 days after the proposing release is published in the Federal Register. A sample summary prospectus will be attached to the proposal. The discussion during the meeting made the point that this sample is truly a sample, not an SEC approved template that must be slavishly followed.

[Click here to view the SEC's Release in its entirety.](#)

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