

Interactive Data for Mutual Fund Risk/Return Summary

June 13, 2008

What This Means

The U.S. Securities and Exchange Commission (SEC) recently proposed to require mutual funds to provide their risk/return summary information in interactive data format as an exhibit to their post-effective amendment filings on Form N-1A. The proposed interactive data requirements would not affect the format of or the information required to be disclosed in a mutual fund's risk/return summary in its prospectus. The proposed amendments also would require mutual funds to post the interactive data to their respective websites.

The SEC has requested comment on numerous issues, including, in particular, whether mutual fund risk/return summary information in interactive data format should also be required as exhibits to Securities Act registration statements filed with the SEC. Any comments should be submitted to the SEC on or before August 1, 2008.

Discussion and Analysis

Potential Benefits of Interactive Data

The proposed rule comes as little surprise to the many mutual fund companies that have been awaiting the results of the SEC's voluntary filer program. The voluntary filer program was started in 2005 and has enabled the SEC to evaluate the costs and benefits of interactive data. Based on the SEC's experience to date with interactive data, it has identified three primary benefits that could be derived from the submission of risk/return summary information in interactive data format:

- The facilitation of comparisons by investors, analysts, and others of mutual fund cost, performance, and other information across multiple classes of the same fund and across more than 8,000 funds.
- The opportunity to automate regulatory filings and business information processing, with the potential to increase the speed, accuracy, and usability of mutual fund disclosure.
- A decrease in the expenses of investors who currently pay third-party sources to access mutual fund risk/return summary information in interactive data format.

How It Works

1. Use of Data Tags:

- Mutual funds would use a software application to apply eXtensible Business Reporting Language (XBRL) tags to mark the information included in the risk/return summary.

- A list of standard tags would be developed by the Investment Company Institute. Mutual funds would be permitted to use special tags, referred to as “extensions,” for nonstandard information that is not contemplated by the list of standard tags.
- The SEC’s website would link to special viewers that would enable the public to read the interactive data.

2. Filing Logistics:

- The risk/return summary information in interactive data format would be included in an exhibit to a registration statement on Form N-1A.
- The exhibit would be filed as a post-effective amendment to an effective registration statement to which the information relates pursuant to Rule 485(b) under the Securities Act.
- The post-effective amendment would consist of the exhibit, a facing page, a signature page, a cover letter, and a revised exhibit index.
- The post-effective amendment containing the exhibit must be filed not later than 15 days after the effective date of the related registration statement.

Proposed Compliance Date

If the proposed rule is adopted, the SEC anticipates deferring the compliance date for all mutual funds until after December 31, 2009. The SEC also suggested that the voluntary filer program, with its limitations on liability, would remain available to mutual funds wishing to test interactive data filings of risk/return summary information until after December 31, 2009.

How Morgan Lewis Can Help

Morgan Lewis routinely assists its mutual fund clients to prepare and file required filings with the SEC and has longstanding working relationships with every major financial printer. Morgan Lewis will continue to keep its clients informed of regulatory and practical matters associated with the increased use of interactive data in SEC filings.

Investment Management FYI is a service of the Investment Management Practice of Morgan Lewis. If you would like more information about the proposed rule or have any questions concerning these legal developments, please contact either of the following Morgan Lewis attorneys:

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