

SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 230, 232, 239, 240, 270, and 274

[Release Nos. 33-7512; 34-39748; IC-23064; File No. S7-10-97]

RIN 3235-AE46

Registration Form Used by Open-End Management Investment Companies

AGENCY: Securities and Exchange Commission.

ACTION: Final rules.

SUMMARY: The Securities and Exchange Commission is adopting amendments to Form N-1A, the form used by mutual funds to register under the Investment Company Act of 1940 and to offer their shares under the Securities Act of 1933. The amendments are intended to improve fund prospectus disclosure and to promote more effective communication of information about funds to investors. The amendments focus the disclosure in a fund's prospectus on essential information about the fund that will assist investors in deciding whether to invest in the fund. The amendments also minimize prospectus disclosure about technical, legal, and operational matters that generally are common to all funds.

DATES:

Effective Date: June 1, 1998.

Compliance Dates:

1. *Initial Compliance Date:* All new registration statements filed on or after December 1, 1998 must comply with the amendments to Form N-1A.

2. *Final Compliance Date:* All funds with effective registration statements must comply with the amendments to Form N-1A for post-effective amendments filed to update their registration statements on or after December 1, 1998, and no later than December 1, 1999.

FOR FURTHER INFORMATION CONTACT:

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Commission, at (202) 942-0659, 450 5th Street, N.W., Mail Stop 5-6, Washington, D.C. 20549-6009 for additional information, including interpretive guidance, about this release or Form N-1A, as amended, and related rules.

SUPPLEMENTARY INFORMATION: The Securities and Exchange Commission ("Commission") is adopting amendments to Form N-1A [17 CFR 274.11A], the registration form used by open-end management investment companies ("funds") to register under the Investment Company Act of 1940 [15 U.S.C. 80a-1, *et seq.*] ("Investment Company Act") and to offer their shares under the Securities Act of 1933 [15 U.S.C. 77a, *et seq.*] ("Securities Act"). The Commission also is adopting technical amendments to rules 483, 485, 495, and 497 under the Securities Act [17 CFR 230.483, 230.485, 230.495, and 230.497]. In a companion release, the Commission is adopting new rule 498 [17 CFR 230.498] under the Securities Act and the Investment Company Act that permits a fund to provide investors with a new short-form document, called a "profile," which summarizes key information about the fund. If a fund makes a profile available, an investor would have the option of purchasing the fund's shares after reviewing the information in the profile or after requesting and reviewing the fund's prospectus (and other information about the fund) before making a decision about investing in the fund. An investor deciding to purchase a fund's shares based on a profile will receive a copy of the fund's prospectus with the purchase confirmation.¹

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¹ Investment Company Act Release No. 23065 (Mar. 13, 1998) ("Profile Adopting Release").

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I. Introduction and Background

Over the last decade, the mutual fund industry has grown enormously both in total assets and in the number of funds.² Today, fund assets exceed the deposits of commercial banks.³ Coincident with the explosive growth of fund investments, the business operations of many funds have become increasingly complex as funds offer new investment options and a wider variety of shareholder services. These factors, combined with new and more sophisticated fund investments, have resulted in fund prospectuses that often include long and complicated disclosure, as funds explain their operations, investments, and services to investors.

Many have criticized fund prospectuses, finding them unintelligible, tedious, and legalistic.⁴

² See Investment Company Institute ("ICI"), Mutual Fund Fact Book 16-23 (37th ed. 1997) ("ICI Fact Book") and ICI, Trends in Mutual Fund Investing: September 1997, at 3 (Oct. 30, 1997) (ICI News No. 97-93) ("ICI Trends") (between 1990 and 1997, fund assets increased from \$1.1 trillion to \$4.4 trillion and the number of funds increased from 3,105 to 6,666).

³ Compare ICI Trends at 1 (fund net assets exceeded \$4.4 trillion as of Sept. 1997) with Federal Reserve Bank Statistical Release H.8: Assets and Liabilities of Commercial Banks in the United States (Nov. 7, 1997) (commercial bank deposits were approximately \$3.0 trillion as of Oct. 1997).

⁴ See, e.g., The Investment Company Act Amendments of 1995: Hearings Before the Subcomm. on Telecommunications and Finance of

Although the prospectus remains the most complete source of information about a fund, technical and unnecessarily long prospectus disclosure often obscures important information about a fund investment and does not serve the informational needs of the majority of fund investors.⁵ The millions of investors who turn to funds as their investment vehicle of choice⁶ need clear and comprehensible information to help them evaluate and compare fund investments.

New Disclosure Initiatives

In seeking to improve the quality and usefulness of fund disclosure, the Commission proposed two major disclosure initiatives on February 27, 1997.⁷ First, the Commission issued for public comment a release (the "Form N-

the House Comm. on Commerce, 104th Cong., 1st Sess. 56, 58 (1995) (statement of Don Powell, President and CEO of Van Kampen American Capital, Inc.) (noting the frequent complaint that prospectuses are too long, cumbersome, and legalistic); J. Bogle, Bogle on Mutual Funds 147 (1994); Rothchild, *The War on Gobbledygook*, Time, Oct. 31, 1994, at 51; Savage, SEC Doesn't Want 1987's Painful Lessons Forgotten, Chicago Sun-Times, Oct. 26, 1997, at 53; Sloan, *Selling Attitude*, Newsweek, June 17, 1996, at 52; Skrzycki, *Prospectuses to be in English*, Donkeys to Fly Tomorrow, Wash. Post, Oct. 21, 1994, at B1; "Taking the Mystery Out of Mutual Funds," Remarks by Arthur Levitt, Chairman, SEC, before the Boston Citizens Seminar, Boston, MA (Feb. 25, 1997); "Fulfilling the Promise of Disclosure," Remarks by Arthur Levitt, Chairman, SEC, before the American Savings Education Council, New York, NY (July 23, 1997).

⁵ Levitt, *Plain English in Prospectuses*, N.Y. St. B. J., Nov. 1997, at 37 ("Levitt Article") ("[D]isclosure is not disclosure if it doesn't communicate."). See also Report on the OCC/SEC Survey of Mutual Fund Investors 12-13 (June 26, 1996) (although fund investors surveyed consulted the prospectus more than any other source of information about the fund they bought, they considered the prospectus only the fifth-best source of information, behind employer-provided written materials, financial publications, family or friends, and brokers); ICI, *The Profile Prospectus: An Assessment by Mutual Fund Shareholders 4* (1996) ("ICI Profile Survey") (about half of fund shareholders surveyed had not consulted a prospectus before making a fund investment).

⁶ U.S. households own 74.2% of the mutual fund industry's assets. ICI Fact Book, *supra* note 2, at 35.

⁷ As part of these disclosure initiatives, the Securities and Exchange Commission (the "Commission") also proposed a new rule that would address investment company names that are likely to mislead investors about the investments and risks of an investment company. Investment Company Act Release No. 22530 (Feb. 27, 1997) [62 FR 10955], correction [62 FR 24161]. This proposed rule would require, among other things, funds and other registered investment companies with names suggesting a specific investment emphasis to invest at least 80% of their assets in the type of investment suggested by their name. The Commission received a number of substantive comments on the proposed rule, many of which asserted that the proposal had flaws that the Commission should address. The Commission's Division of Investment Management (the "Division") is analyzing the comments and expects to recommend a final rule for Commission consideration in the near future.

1A Proposing Release") that proposed significant amendments to the prospectus disclosure requirements for funds (the "Proposed Amendments").⁸ Second, the Commission proposed, in a companion release, new rule 498 under the Securities Act and the Investment Company Act that would allow a fund to offer investors the option to purchase its shares after reviewing the information in the fund's profile or after requesting and reviewing the fund's prospectus (and other information about the fund) before making a decision about investing in the fund.⁹ As proposed, the profile (the "Proposed Profile") would summarize key information about a fund, including the fund's investment objectives, strategies, risks, performance, and fees. Under proposed rule 498, a fund would be required to send investors the fund's prospectus and certain other information within 3 business days of a request, and any investor purchasing the fund's shares on the basis of a profile would receive the prospectus with the purchase confirmation.

The Commission's disclosure initiatives were intended to: improve fund disclosure by requiring prospectuses to focus on information central to investment decisions; provide new disclosure options for investors; and enhance the comparability of information about funds. Taken together, these initiatives are designed to promote more effective communication of information about funds to investors without reducing the amount of information provided to investors. The Proposed Amendments reflected the Commission's strong belief that the primary purpose of the disclosure in a fund's prospectus is to help an investor make a decision about investing in the fund.¹⁰ Consistent with this belief, the objective of the Proposed Amendments was to provide investors with prospectus disclosure that presents clear, concise, and understandable information about an investment in a fund.

Commenters expressed overwhelming support for the Commission's disclosure

initiatives.¹¹ Commenters believed that the Commission's disclosure initiatives would enhance the quality of disclosure that funds provide to investors. Some commenters emphasized that improved disclosure about funds was long overdue and would substantially benefit investors. In particular, commenters strongly supported the Proposed Amendments as effective steps toward improving fund prospectuses. Commenters also provided numerous additional suggestions to improve prospectus disclosure. The Commission is adopting the initiatives substantially as proposed.

Prior Commission Disclosure Initiatives

The amendments to the prospectus disclosure requirements adopted today are another important step in the Commission's ongoing efforts to improve disclosure about funds. In 1983, the Commission introduced an innovative approach to prospectus disclosure by adopting a two-part disclosure format that permitted a fund to provide investors with a simplified prospectus containing essential information about the fund and to place more detailed information in a companion document called the "Statement of Additional Information" ("SAI"), which investors could obtain upon request.¹² The Commission intended that, under this format, a fund's prospectus would include essential information about the fund that would be most useful to typical or average investors in making an investment decision about the fund. The Commission contemplated that more detailed discussions of matters geared to the needs of more sophisticated investors would be available in the SAI, which all fund investors could obtain upon request. In adopting this new format, the Commission's goal was to provide investors with more useful information in "a prospectus that is substantially shorter and simpler, so that the prospectus clearly discloses the

¹¹ Eighty-seven percent of the commenters supported the Proposed Amendments. The Commission received 78 comment letters on the Proposed Amendments, over half of which were from individual investors (44 letters or 57%). The Commission also received comment letters from 8 professional and trade associations, 13 fund groups, 4 law firms, 2 broker-dealers/investment advisers, and 7 other interested organizations. The comment letters, as well as a comment summary prepared by the Commission's staff, are available for public inspection and copying at the Commission's Public Reference Room in File No. S7-10-97. The Commission received 256 comment letters on the fund profile, a large number of which were from individual investors (226 letters or 88%). See *Profile Adopting Release*, *supra* note 1.

¹² Investment Company Act Release No. 13436 (Aug. 12, 1983) [48 FR 37928] ("1983 Form N-1A Adopting Release").

⁸ Investment Company Act Release No. 22528 (Feb. 27, 1997) [62 FR 10898], correction [62 FR 24160] ("Form N-1A Proposing Release").

⁹ See Investment Company Act Release No. 22529 (Feb. 27, 1997) [62 FR 10943], correction [62 FR 24160] ("Profile Proposing Release").

¹⁰ The Commission is adopting the amendments to Form N-1A under its authority in section 10(a) of the Securities Act [15 U.S.C. 77j(a)] based on its determination that certain disclosure requirements result in information that, while useful to some investors, is not necessary in the public interest or for the protection of investors to be included in the prospectus.

fundamental characteristics of the particular investment company
* * * '13

Since 1983, the Commission has implemented a number of other initiatives to improve fund prospectus disclosure, including a uniform fee table¹⁴ and a requirement that a fund's management discuss the fund's performance over the past year in its prospectus or annual report to shareholders (the management's discussion of fund performance ("MDFP")).¹⁵ While these changes have provided investors with clear and helpful information about fund expenses and performance, they were not intended to address the overall effectiveness of Form N-1A's prospectus disclosure requirements. The Proposed Amendments and Form N-1A, as amended, reflect the Commission's view that current prospectus disclosure must be considered on a comprehensive basis to ensure that the prospectus, as a whole, meets the information needs of investors.

Reassessment of Fund Disclosure

The Commission's recent efforts to improve disclosure began with an evaluation of the use of a standardized, summary disclosure document that highlights key information about a fund. The Commission, with the cooperation of the Investment Company Institute ("ICI") and several large fund groups, conducted a pilot program permitting funds to use profile-like summaries ("Pilot Profiles") together with their prospectuses.¹⁶ The program's purpose was to determine whether investors found the Pilot Profiles, which summarize important information about a fund, helpful in making investment decisions. Focus groups conducted on the Commission's behalf, and fund investors participating in a survey sponsored by the ICI, responded very positively to the profile concept.¹⁷

In considering fund disclosure issues, the Commission also has evaluated over 3,700 letters submitted in response to a release requesting comment on ways to improve risk disclosure in fund prospectuses, as well as the comparability of fund risk levels ("Risk Concept Release").¹⁸ The commenters, mostly individual investors, confirmed the importance of risk disclosure in evaluating and comparing funds and emphasized the need to improve prospectus disclosure of fund risks. In particular, commenters indicated that current risk disclosure is difficult to understand and does not fully convey to investors the risks associated with an investment in a fund.

Plain English Initiatives

The fund disclosure initiatives being adopted today are part of the Commission's broad undertaking to bring sweeping revisions to prospectus disclosure for all public companies.¹⁹ As part of its commitment to make all prospectuses simpler, clearer, and more useful, and to eliminate jargon and boilerplate, the Commission recently adopted rule amendments to require the use of plain English principles in drafting prospectuses and to provide other guidance on improving the readability of prospectuses.²⁰ The Commission's plain English principles reflect fundamentals of clear communication and contemplate disclosure documents that:

- Present information in an easily readable format;
- Use everyday language that investors can easily understand; and
- Eliminate repetition of disclosure that lengthens a document and overwhelms the investor.

Improved Fund Disclosure

As one commenter on the disclosure initiatives pointed out, the Commission's proposals reflect an unprecedented number and variety of public comments and expert views, the results of Commission and other research, and broad investor input. The Commission agrees with the commenter's further observation that the Commission has never had a more

detailed, comprehensive, and compelling basis for a rulemaking than that developed for the fund disclosure initiatives. Through focus groups and written comments on the initiatives, investors have confirmed that they concur strongly with the Commission's view that fund disclosure documents will be useful only if they communicate information effectively. The Commission has designed both the fund prospectus and profile initiatives to meet this goal. The amendments to Form N-1A seek to make the prospectus, which will remain a fund's primary disclosure document, a more effective tool by focusing its contents on information that is essential to an investment in the fund. The profile responds to investors' strongly expressed desire for a new, concise disclosure document that summarizes key fund information and helps investors evaluate and compare funds more easily.

To encourage the use of disclosure that communicates effectively, the Commission's fund disclosure initiatives include a number of important innovations:

- The initiatives provide for a standardized risk/return summary at the beginning of every fund prospectus and in the profile that:²¹
- Concise summarizes information in a specific sequence about a fund's investment objectives, strategies, risks and performance, and fees;
- Discusses the risks of a fund's portfolio taken as a whole and minimizes detailed and technical descriptions of the risks associated with specific portfolio securities potentially held by the fund; and
- Provides a graphic presentation of a fund's annual returns over a 10-year period in a bar chart that illustrates the variability of the fund's returns and gives investors some idea of the risks of an investment in the fund. To help investors evaluate a fund's risks and returns relative to "the market," a table accompanying the bar chart compares the fund's average annual returns for 1, 5, and 10 years with that of a broad-based securities market index.
- The initiatives require a fund to prepare disclosure documents using plain English disclosure, which is designed to give investors

¹³ Investment Company Act Release No. 12927 (Dec. 27, 1982) [48 FR 813, 814] ("1982 Form N-1A Proposing Release").

¹⁴ See Item 3 of current Form N-1A; Investment Company Act Release No. 16244 (Feb. 1, 1988) [53 FR 3192] ("Fee Table Adopting Release").

¹⁵ Item 5A of current Form N-1A; Investment Company Act Release No. 19382 (Apr. 6, 1993) [58 FR 19050] ("MDFP Adopting Release").

¹⁶ See Investment Company Institute (pub. avail. July 31, 1995) ("1995 Profile Letter"); Investment Company Institute (pub. avail. July 29, 1996) ("1996 Profile Letter"). The Division permitted the pilot program to continue pending the adoption of proposed rule 498. Investment Company Institute (pub. avail. July 16, 1997) ("1997 Profile Letter"). After the effective date of new rule 498, a fund could continue to use a Pilot Profile as supplemental sales literature. See Profile Adopting Release, *supra* note 1.

¹⁷ See ICI Profile Survey, *supra* note 5, at 31-32.

¹⁸ See Investment Company Act Release No. 20974 (Mar. 29, 1995) [60 FR 17172] ("Risk Concept Release").

¹⁹ See Levitt Article, *supra* note 5, at 36.

²⁰ Rule 421 under the Securities Act [17 CFR 230.421]. See Securities Act Release No. 7497 (Jan. 28, 1998) [63 FR 6370] ("Plain English Release") and discussion *infra* Section II.D.2. As part of the plain English initiatives, the Commission plans to issue A Handbook on Plain English: How to Create Clear SEC Disclosure Documents, prepared by the Commission's Office of Investor Education and Assistance.

²¹ These improvements are based in large part on comments received in response to the Risk Concept Release. See Risk Concept Release, *supra* note 18. The Commission also considered other information about fund risk disclosure, including the results of an investor survey sponsored by the ICI. See ICI, Shareholder Assessment of Risk Disclosure Methods (1996) ("ICI Risk Survey").

- understandable disclosure documents.
- The initiatives eliminate prospectus clutter that obscures other information helpful to investors when making a decision about an investment in a fund. Specifically, the amendments to prospectus disclosure requirements:
- Move certain disclosure about fund organization and legal requirements from the prospectus to the SAI;
- Permit a fund that is offered as an investment alternative in a participant-directed defined contribution plan (or certain other tax- advantaged arrangements) to tailor its prospectus for the plan (or other arrangement);
- Update and incorporate certain staff interpretive positions into Form N-1A;²² and
- Simplify current disclosure instructions to provide clearer guidance for preparing and filing fund registration statements.

Disclosure Principles

The Commission believes that, in revising Form N-1A and in providing for the use of profiles, it has laid the foundation for the development of fund disclosure documents of a significantly higher quality than those often used today, which have drawn the consistent criticism of fund investors and others. If the initiatives are to have their intended effect, however, all those who participate in the preparation and review of those documents—funds, their legal counsels and other advisors, the Commission and its staff, and other regulators and their staffs—should act consistently with the basic disclosure principles that serve as the cornerstones of the initiatives. These principles, which are referred to throughout this release, include the following:

- Funds should design disclosure documents, particularly their prospectuses, first and foremost, to communicate information to investors effectively. Funds should present information in prospectuses following the principles of plain English, using

language that is concise, straightforward, and easy to understand.

- A fund's prospectus principally should include essential information about the fundamental characteristics of, and risks of investing in, the fund. Whenever possible, a fund should present this information in a manner that:
- Assists investors in comparing and contrasting the fund with other funds;
- Avoids simply restating legal or regulatory requirements to which funds generally are subject; and
- Avoids a disproportionate emphasis on possible investments or activities of the fund that are not a significant part of the fund's investment operations.
- Funds should limit disclosure in prospectuses generally to information that is necessary for an average or typical investor to make an investment decision. Detailed or highly technical discussions, as well as information that may be helpful to more sophisticated investors, dilute the effect of necessary prospectus disclosure and should be placed in the SAI.
- Prospectus disclosure requirements should not lead to lengthy disclosure that discourages investors from reading the prospectus or obscures essential information about an investment in a fund.

The Commission has instructed its staff to use these principles consistently in administering the requirements of both amended Form N-1A and new rule 498 and strongly encourages all other participants in the development of fund disclosure documents to apply these principles in preparing their prospectuses and profiles.²³

II. Discussion

A. Part A—Information in the Prospectus

Form N-1A, as amended, retains the overall structure of current Form N-1A. The most significant changes to Form N-1A adopted today are the new risk/return summary at the beginning of the prospectus and improved disclosure about the risks of investing in a fund. This release first addresses these changes and then discusses other changes to substantive prospectus disclosure requirements in Part A of

Form N-1A.²⁴ Following this discussion, the release describes revisions to requirements for information on the front and back cover pages of the prospectus, the General Instructions to Form N-1A, which have been updated and revised to make them easier to use, and other technical revisions to Form N-1A's requirements.²⁵

1. Risk/Return Summary: Investments, Risks, and Performance (Item 2)

The Commission proposed to require a risk/return summary at the beginning of every prospectus that would provide key information about a fund's investment objectives, principal strategies, risks, performance, and fees. The risk/return summary, also included in the Proposed Profile, was intended to respond to investors' strong preference for summary information about the fund in a standardized format.²⁶ The proposed risk/return summary in a fund's prospectus would provide investors with a type of "executive summary" of key information about the fund in a standardized, easily accessible place that investors could use to evaluate and compare the fund to others, regardless of whether the fund uses a profile.

While most commenters supported the proposed risk/return summary, several questioned whether it was necessary in a prospectus. These commenters argued that the summary could repeat other information in the prospectus and that it would undermine the Commission's goal of making prospectus disclosure clear and concise.

The Commission is of the view that the prospectus risk/return summary will not undermine, but further, the goal of making prospectuses more useful for investors. The Commission believes that

²⁴ A chart in Appendix A to this release compares the revised Items in Form N-1A, as amended, to the current Items in Form N-1A.

²⁵ Form N-1A, as amended, incorporates certain disclosure requirements from the Guidelines to current Form N-1A (the "Guides") and the Generic Comment Letters ("GCLs") that have been issued over time by the Division. See Letters to Registrants (Jan. 11, 1990) ("1990 GCL"); (Jan. 3, 1991) ("1991 GCL"); (Jan. 17, 1992) ("1992 GCL"); (Feb. 22, 1993) ("1993 GCL"); (Feb. 25, 1994) ("1994 GCL"); (Feb. 3, 1995) ("1995 GCL"); (Feb. 16, 1996) ("1996 GCL"). For a discussion of the Guides and the GCLs, see *infra* notes 209–215 and accompanying text.

²⁶ Participants in focus groups conducted on the Commission's behalf ("Focus Groups"), for example, expressed strong support for summary information in a standardized format. Many individuals in commenting on the profile initiative have confirmed the need for concise, summary information relating to a fund. See also Joe Six-Pack: Public Favors Profile Plan, Fund Action, Oct. 1997, at 9; Profile Prospectuses: An Idea Whose Time Has Come, Mutual Funds Magazine, Aug. 1996, at 11.

²² The amendments contemplate further that the Division will consolidate its interpretive positions under the Investment Company Act relating to, among other things, fund operations in a new "Investment Company Registration Guide" ("Registration Guide"). The Registration Guide is discussed *infra* Section II.D.6. Form N-1A, as amended, incorporates certain staff disclosure requirements to identify those requirements that would apply to all funds regardless of their particular circumstances. Among other things, this approach addresses disclosure requirements that have been developed in connection with an issue presented by a specific fund, but applied to all funds regardless of their particular circumstances.

²³ The Commission expects that these disclosure principles also will provide useful guidance in resolving disclosure issues relating to funds under the federal securities laws as these issues arise from time to time. See discussion of administration of Form N-1A, *infra* Section II.F.

the disclosure in the risk/return summary need not generally repeat other information in the prospectus; much of the summary consists of information that Form N-1A would not require to be disclosed elsewhere in the prospectus, such as the bar chart, performance table, and fee table. The Commission has concluded that the possibility that the risk/return summary could repeat some information appearing elsewhere in the prospectus is outweighed by the benefits of providing investors with standardized and comparable fund information at the beginning of every prospectus and in the profile. Thus, the Commission is adopting the requirement that every prospectus and profile contain a risk/return summary.²⁷

The Commission proposed to require that the risk/return information in the prospectus, like that in the Proposed Profile, appear in a specific sequence and in a question-and-answer format. Many commenters objected to the question-and-answer format, stating, among other things, that rigid adherence to the format would not necessarily result in effective communication of information to investors.²⁸ To allow funds to design effective disclosure documents, the Commission has determined not to require this format in the prospectus or the profile. Any fund that chose to do so could use a question-and-answer format in its prospectus, profile, or in both documents.

a. Investment Objectives and Principal Strategies. The Proposed Amendments would require a fund to disclose its investment objectives in the risk/return summary and to summarize, based on the information provided in its prospectus, how the fund intends to achieve those objectives. The purpose of the proposed disclosure was to provide a summary of the fund's principal investment strategies, including the specific types of securities in which the fund principally invests or will invest, and any policy of the fund to concentrate its investments in an

industry or group of industries.²⁹ The Commission is adopting this requirement as proposed.³⁰

The information contained in the risk/return summary about a fund's investment objectives and principal strategies is intended to meet the needs of an average or typical fund investor. Recognizing that disclosure about a fund's specific portfolio holdings may be important to some investors, the Proposed Amendments would require a fund to inform investors in its prospectus risk/return summary that additional information about the fund's investments is available in the fund's shareholder reports.³¹ While supporting the proposed disclosure, most commenters suggested placing statements about how investors can obtain a fund's SAI, shareholder reports, and other information about the fund on the back cover page of the prospectus. According to these commenters, this disclosure would be easier for investors to find if it were located in one place rather than in different places in the prospectus. The Commission agrees with the commenters that typical fund investors may find a single reference to the availability of additional information helpful. Therefore, Form N-1A, as amended, requires all disclosure about the availability of additional information to appear on the back cover page of the prospectus.³² The Commission is adopting the disclosure as proposed, with minor adjustments to the language to ensure that the disclosure clearly explains the

availability of additional information about a fund to a typical investor.³³

b. Risks. Summary Risk Disclosure. The Proposed Amendments would require the risk/return summary to include a discussion of the principal risks of investing in a fund that summarizes information about those risks set out in the fund's prospectus. Reflecting the Commission's proposed new approach to risk disclosure, this discussion was intended to summarize the risks of a fund's anticipated portfolio holdings as a whole, and the circumstances reasonably likely to affect adversely the fund's net asset value, yield, and total return. Commenters generally supported the summary risk disclosure contemplated by the Proposed Amendments, agreeing that it would be specific and brief and would assist investors in identifying the principal risks of investing in a particular fund. The Commission is adopting this disclosure requirement with modifications to reflect certain commenters' suggestions.³⁴

Several commenters asked the Commission to clarify the scope of the proposed summary risk disclosure, arguing that the requirement would not serve its purpose if the risk disclosure simply repeated information from other sections of the prospectus. In the Commission's view, the purpose of the summary risk disclosure in a fund's prospectus is to identify briefly the principal risks of investing in the particular fund and to emphasize those risks reasonably likely to affect the fund's performance. In light of this purpose, the Commission expects a fund, in meeting this requirement, to present only a succinct summary of the principal risks of investing in the fund and not to repeat the fuller discussion of these risks required elsewhere in the prospectus.³⁵ On the other hand, the Commission believes that it generally would be inconsistent with the summary risk requirement for a fund to include a "laundry list" of generic risk factors that may apply to any fund and

²⁹ See *infra* notes 91-101 and accompanying text (discussing the criteria for determining whether a particular strategy is a principal strategy and disclosure about concentration policies).

³⁰ Items 2 (a) and (b).

³¹ The Commission proposed that the prospectus risk summary refer to fund shareholder reports. A fund's reports to its shareholders typically contain a discussion by the fund's management of the fund's performance ("MDFP"). The Commission believes that the information in a fund's MDFP, including the discussion of the fund's performance during its most recent fiscal year, could be useful to some investors considering an investment in the fund.

The Proposed Amendments would require the risk/return summary to provide disclosure to the following effect:

Additional information about the fund's investments is available in the fund's annual and semi-annual reports to shareholders. In particular, the fund's annual report discusses the relevant market conditions and investment strategies used by the fund's investment adviser that materially affected the fund's performance during the last fiscal year. You may obtain these reports at no cost by calling _____.

³² Item 1(b). Rule 498, as adopted, requires this disclosure to appear in the profile risk/return summary. See Profile Adopting Release, *supra* note 1.

³³ The Commission has made a few revisions to the disclosure about the availability of additional information to make it clearer and more understandable for investors. Item 1(b)(1) of Form N-1A, as amended, requires a fund (other than a new fund) to include disclosure to the following effect on the back cover page of its prospectus:

Additional information about the fund's investments is available in the fund's annual and semi-annual reports to shareholders. In the fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the fund's performance during its last fiscal year.

³⁴ Item 2(c).

³⁵ See discussion of risk disclosure, *infra* Section II.A.3.b.

²⁷ Items 2 and 3. Consistent with the goal of providing key information in a standardized summary, General Instruction C.3(b) to Form N-1A, as amended, precludes a fund from including information in the prospectus risk/return summary that is not required or otherwise permitted by Items 2 and 3. Form N-1A, as amended, does not require a fund to include any risk disclosure elsewhere in the prospectus if the requirements of Item 4 of Form N-1A are met by the disclosure in the fund's risk/return summary (*i.e.*, if a fund is able to describe its risks, as required by Item 4, in its risk/return summary, the fund would not need to describe those risks elsewhere in its prospectus).

²⁸ See Profile Adopting Release, *supra* note 1 (discussing commenters' critiques of the question-and-answer format).

that does not identify the risks of investing in the fund.

The Commission proposed to require that the prospectus risk summary identify the types of investors for whom the fund may be an appropriate or inappropriate investment.³⁶ Commenters either opposed or raised significant concerns about this provision, arguing that it could be viewed as requiring a fund to determine whether its shares, among other things, are a suitable investment for a particular investor.³⁷ Commenters also stated that the disclosure would tend to be generic and not meaningful or useful for investors.

The Commission is persuaded by commenters that disclosure about the appropriateness of funds for particular investors should not be required in all fund prospectuses and has deleted this requirement from the prospectus risk summary. The Commission believes, however, that disclosure indicating whether a fund is appropriate for specific types of investors or is consistent with certain investment goals, even if generic in nature, may be useful for some investors and may provide a means for the fund to distinguish itself from other investment alternatives.³⁸ Therefore, Form N-1A, as amended, permits, but does not require, a fund to include disclosure in the narrative risk summary about the types of investors for whom the fund is intended or the types of investment

goals that may be consistent with an investment in the fund.³⁹

Under the Proposed Amendments, a fund could choose to discuss the potential rewards of investing in the fund in the risk summary as long as the discussion provided a balanced presentation of the fund's risks and rewards. One commenter strongly questioned this provision of the proposal, asserting that it would detract from a clear presentation of risks in the risk summary. The Commission has reconsidered this disclosure in light of the intended standardized and summary nature of the risk summary and has concluded that the disclosure should focus solely on the risks of investing in a fund. Thus, the Commission has determined to eliminate the option to describe the rewards of investing in a fund in the risk summary. A fund desiring to add this disclosure elsewhere in its prospectus can do so subject to Form N-1A's general rule with respect to information that is not required to be in a prospectus. Under this general rule, a fund can disclose this information, so long as it is not incomplete or misleading and would not obscure or impede understanding of the information that is required to be in the prospectus.⁴⁰

Special Risk Disclosure Requirements. The Proposed Amendments were intended to simplify the prospectus cover page and to avoid repeating information on the cover page and in the risk summary discussion. In seeking to meet this goal, the Commission proposed to move certain cover page disclosure requirements relating to the risks associated with specific types of funds to the risk summary where, the Commission believed, it would be more meaningful to investors.

Form N-1A currently requires that each money market fund⁴¹ disclose on the cover page of its prospectus that an investment in the fund is neither insured nor guaranteed by the U.S. Government and that there can be no assurance that the fund will be able to maintain a stable net asset value of \$1.00 per share. This required disclosure is intended to alert investors that investing in a money market fund is not without risk.⁴² In addition to

moving this disclosure to the risk summary, the Proposed Amendments would simplify the technical disclosure that a money market fund may not be able to maintain a stable net asset value.⁴³ Commenters supported the proposed disclosure for money market funds, and the Commission is adopting it as proposed.⁴⁴

Form N-1A currently requires specific prospectus cover page disclosure for a tax-exempt money market fund that concentrates its investments in a particular state (a "single state money market fund"). Each such fund is required to disclose that it may invest a significant percentage of its assets in a single issuer and that investing in the fund may be riskier than investing in other types of money market funds. This disclosure was intended to make investors aware of special risks that could be associated with an investment in a single state money market fund.⁴⁵ In the Form N-1A Proposing Release, the Commission asked whether it should continue to require this disclosure in prospectuses. The Commission noted that this disclosure may exaggerate the risk of investing in a single state money market fund. As the Form N-1A Proposing Release pointed out, although these funds are subject to less stringent issuer diversification provisions under Commission rules than other money market funds, they are subject to credit quality and maturity investment restrictions that are comparable to other money market funds.⁴⁶

In response to the Commission's question regarding single state money market funds, commenters indicated that the special disclosure now required

and adopting revisions to rule 2a-7 for money market funds).

⁴³ The Proposed Amendments would require the following disclosure:

An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

⁴⁴ Item 2(c)(1)(ii).

⁴⁵ Form N-1A currently does not require this disclosure if, with respect to 100% of its assets, a fund limits its investments in a single issuer to no more than 5% of its assets.

⁴⁶ See Form N-1A Proposing Release, *supra* note 8, at 10904. Under rule 2a-7, a "national" tax-exempt money market fund generally is limited to investing no more than 5% of its assets in the securities of a single issuer. For a single state money market fund, the 5% single issuer limitation applies with respect to 75% of the fund's assets. This limitation recognizes that single state money market funds concentrate their investments in debt securities issued by a single state (or issuers located within that state), making diversification more difficult to achieve. See Investment Company Act Release Nos. 21837 (Mar. 21, 1996) [61 FR 13956] and 22921 (Dec. 2, 1997) [62 FR 64968].

³⁶ As discussed in the Form N-1A Proposing Release, *supra* note 8, at 10902, the purpose of this disclosure was to help investors evaluate and compare funds based on their investment goals and individual circumstances.

³⁷ As several commenters pointed out, applicable regulatory rules for brokers and other investment professionals require that these determinations be made on the basis of a review of information about the unique circumstances of an individual investor. See, e.g., rule 2310(a) of the National Association of Securities Dealers, Inc. ("NASD") Conduct Rules, NASD Manual (CCH) 4261 (suitability of recommendations to customers) and rule 405 of the New York Stock Exchange, 2 N.Y.S.E. Guide (CCH) ¶ 2403 (the "know your customer" rule).

³⁸ In a recent review of fund prospectuses, the Division found many examples of this type of disclosure, which was usually included in a fund's discussion of the risks associated with an investment in the fund. For example, one fund disclosed that it was not an appropriate investment for investors seeking either preservation of capital or high current income or for those investors unable to assume the increased risks of higher price volatility and currency fluctuations associated with investments in international equities traded in non-U.S. currencies. Another fund urged investors to remember that the fund was an aggressive capital appreciation fund designed for long-term investors for a portion of their investments and was not designed for investors seeking income or conservation of capital. Tax-exempt funds frequently stated that an investment in the fund is not appropriate for Individual Retirement Accounts or other tax-advantaged accounts.

³⁹ Instruction to Item 2(c)(1)(i).

⁴⁰ See General Instruction C.3(b).

⁴¹ For these purposes, a money market fund is defined as a fund that holds itself out to investors as a money market fund and meets the conditions of paragraphs (c)(2), (c)(3), and (c)(4) of rule 2a-7 under the Investment Company Act [17 CFR 270.2a-7]. General Instruction A.

⁴² See Investment Company Act Release Nos. 17589 (July 17, 1990) [55 FR 30239, 30247] and 18005 (Feb. 20, 1991) [56 FR 8113, 8123] (proposing

on the cover page of fund prospectuses overstates the risks of investing in single state money market funds, particularly in view of the minimal risk that commenters asserted is associated with these funds. The Commission is persuaded by these comments and has determined not to require the disclosure in Form N-1A.

Form N-1A currently requires a fund that is advised by or sold through a bank to disclose on the cover page of its prospectus that the fund's shares are not deposits or obligations of, nor guaranteed or endorsed by, the bank, and that the shares are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency.⁴⁷ This disclosure is intended to alert investors that funds advised by or sold through banks are not federally insured.⁴⁸ The Commission proposed to move this disclosure to the prospectus risk summary and to simplify the wording of the current disclosure required for funds advised by or sold through banks.⁴⁹ Commenters supported the revised disclosure requirements for bank-sold funds, and the Commission is adopting them substantially as proposed.⁵⁰

⁴⁷ 1994 GCL, *supra* note 25; Letter to Registrants from Barbara J. Green, Deputy Director, Division of Investment Management, SEC (May 13, 1993) ("Division Bank Letter").

⁴⁸ See Division Bank Letter, *supra* note 47. See also Testimony of Ricki Helfer, Chairman, Federal Deposit Insurance Corporation ("FDIC"), on FDIC Survey of Nondeposit Investment Sales at FDIC-Insured Institutions Before the Subcomm. on Capital Markets, Securities, and Government Sponsored Enterprises of the House Comm. on Banking and Financial Services, 104th Cong., 2d Sess. (June 26, 1996) (citing surveys in October 1995 and April 1996 indicating that approximately one-third of bank customers either thought that, or did not know whether, funds sold through banks were insured).

⁴⁹ The Proposed Amendments would require a fund that is not a money market fund but is advised by or sold through a bank to disclose that its shares are not federally insured as follows:

An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

⁵⁰ Item 2(c)(1)(iii). Some commenters asserted that the proposed disclosure was inconsistent with that required by bank regulators in the Interagency Statement on Retail Sales of Nondeposit Investment Products. See Board of Governors of the Federal Reserve System, FDIC, Office of the Comptroller of the Currency, and Office of Thrift Supervision, Interagency Statement on Retail Sales of Nondeposit Products, 6 Fed. Banking L. Rep. (CCH) ¶ 70-113, at 82,598 (Feb. 15, 1994) ("Interagency Statement") (requiring disclosure that the fund is not a deposit or other obligation of the bank). The Commission has confirmed with these bank regulators that no such inconsistency exists, because the disclosure required by the Interagency Statement applies to sales material and not to fund prospectuses. In response to suggestions from the bank regulators, the Commission has revised the legend required for funds that are advised by or sold through banks, to read as follows:

An investment in the Fund is not a deposit of the bank and is not insured or guaranteed by the

Risk/Return Bar Chart and Table. The Proposed Amendments would require a fund's risk/return summary to include a bar chart showing the fund's annual returns for each of the last 10 calendar years and a table comparing the fund's average annual returns for the last 1-, 5-, and 10-fiscal years to those of a broad-based securities market index. Commenters generally supported the proposed bar chart and performance table, but had a number of suggestions about the content and presentation of the information in both. The Commission is adopting the proposed bar chart and table requirements with modifications to reflect suggestions of commenters.⁵¹

The bar chart reflects the Commission's determination that investors need improved disclosure about the risks of investing in a fund. The bar chart is intended to illustrate graphically the variability of a fund's returns (e.g., whether a fund's returns for a 10-year period have changed significantly from year to year or were relatively even over the period) and thus provide investors with some idea of the risk of an investment in the fund.⁵² The average annual return information in the table should enable investors to evaluate a fund's performance and risks relative to "the market."

In the Form N-1A Proposing Release, the Commission requested comment

Federal Deposit Insurance Corporation or any other government agency.

The requirement, as amended in this way, is consistent with the requirement now in effect.

⁵¹ Item 2(c)(2). An example of the bar chart and performance table is attached as Appendix B to this release.

⁵² In adopting the bar chart requirement, the Commission does not mean to suggest that all, or even a significant portion of all, fund investors equate variability in a fund's returns with the risks of investing in the fund. As discussed below, the Commission acknowledges that investors have a wide range of ideas of what "risk" means. See *infra* Section II.A.3. Nonetheless, the Commission's bar chart proposal was supported by many investors who expressed strong interest in seeing prospectuses include a version of the bar chart. Focus group participants, for instance, found the bar chart helpful in evaluating and comparing fund investments. Over 75% of individual investors responding to the Risk Concept Release favored a bar chart presentation of fund volatility. Risk Concept Release, *supra* note 18. See also ICI, Understanding Shareholders' Use of Information and Advisers (1997) ("ICI Shareholder Use Study") at 20 and 30 (discussing investors' interest in receiving and understanding fund risk information) and ICI Risk Survey, *supra* note 21. In addition, all commenters responding to the Commission's initiative to simplify money market fund prospectuses supported the proposal to replace the financial highlights information in money market fund prospectuses with a 10-year bar chart reflecting a money market fund's yield. See Summary of Comment Letters on Proposed Amendments to the Rules Regulating Money Market Fund Prospectuses Made in Response to Investment Company Act Release No. 21216, at 2 (File No. S7-21-95).

about alternative presentations that could improve fund risk disclosure.⁵³ In particular, the Commission expressed interest in disclosure that would show a fund's highest and lowest returns (or "range" of returns) for annual or other periods as an alternative, or in addition, to the bar chart. The Commission suggested that a fund could present the information in a separate table or could include it in the performance table.

In response to the Commission's request, some commenters suggested including in a fund's bar chart one or more indexes or other benchmarks (such as 3-month Treasury returns or the rate of inflation) to help investors evaluate the fund's returns by comparisons to other measures of market performance or economic factors.⁵⁴ Most commenters, however, opposed requiring additional information in the bar chart, asserting that it could complicate and reduce the effectiveness of the bar chart.

Several commenters supported the inclusion of return information in the bar chart on a quarterly or semi-annual rather than an annual basis. They argued that this change to the bar chart would respond to concerns that investors may not sufficiently appreciate that an investment in a fund may be subject to the risk of a short-term decline in value. This risk, commenters asserted, may not be apparent from the annual returns proposed to be shown in the bar chart. One commenter recommended that the Commission require quarterly returns in the bar chart so that investors would have more information about returns over shorter periods to use in assessing the variability reflected in a fund's past returns. The commenter argued that including returns on an annual basis in the bar chart may not show a significant amount of shorter-term price fluctuation.

The Commission acknowledges that a fund's returns may vary significantly and could decrease in value over short periods and that the annual returns in the bar chart will not necessarily reflect this pattern. On the other hand, the Commission is concerned that requiring quarterly returns over a 10-year period would make the bar chart more complex and less useful in communicating information to investors. In balancing the desire to make typical fund investors aware that fund shares may

⁵³ See Form N-1A Proposing Release, *supra* note 8, at 10907.

⁵⁴ Form N-1A, as amended, permits a fund to use other indexes in the presentation of the average annual return information in the table accompanying the bar chart. Instruction 2(b) to Item 2(c)(2).

experience fluctuations over shorter periods with its underlying goal that fund documents communicate information in as straightforward and uncomplicated a manner as possible, the Commission has determined to require a fund to disclose, in addition to the bar chart, its best and worst returns for a quarter during the 10-year (or other) period reflected in the bar chart.⁵⁵ The Commission believes that this information will assist investors in understanding the variability of a fund's returns and the risks of investing in the fund by illustrating, without adding unwarranted complexity to the bar chart, that the fund's shares may be subject to short-term price fluctuations.

Presentation of Return Information. The Proposed Amendments would require a fund to include the bar chart and table in the risk section of the prospectus risk/return summary under a separate sub-heading that referred to both risk and performance. Several commenters argued that the separate sub-heading requirement was unnecessary and suggested that a fund should be able to choose whether to include any sub-heading. Consistent with the objective of encouraging funds to develop disclosure formats that are most helpful to investors, Form N-1A, as amended, does not require the sub-heading included in the Proposed Amendments.⁵⁶ To help investors use the information in the bar chart and table, Form N-1A, as amended, however, does require a fund to provide a brief narrative explanation of how the information illustrates the variability of the fund's returns.⁵⁷

Bar Chart Return Information. The Proposed Amendments would require that a fund's prospectus bar chart show the fund's annual returns for the last 10 calendar years of the fund's existence. The purpose of the calendar year requirement was to facilitate the comparison of annual returns among funds, which typically have fiscal periods that do not correspond to the calendar year.⁵⁸ Unlike the proposed bar chart, the proposed performance table required disclosure of a fund's returns for fiscal year periods. In requiring this disclosure to be made for fiscal year periods, the proposal was consistent with existing disclosure

requirements for the presentation of other financial information included in a fund's prospectus.

Several commenters argued that using different time periods for the proposed bar chart and performance table would confuse investors and urged the Commission to minimize potential investor confusion by adopting consistent time periods for this information. The Commission is persuaded by these comments and believes that requiring both the bar chart and the performance table to be based on calendar year periods will promote understandable information in fund prospectuses. Therefore, Form N-1A, as amended, requires calendar year periods for both the bar chart and table.⁵⁹ Rule 498, as adopted, also requires the bar chart and table in the profile to show calendar year data so that both the profile and the prospectus of a fund will have virtually the same risk/return information.⁶⁰

The Commission is adopting, as proposed, the requirement that a fund calculate the annual returns in the bar chart using the same method required for calculating annual returns in the financial highlights information included in fund prospectuses.⁶¹ The bar chart does not reflect sales loads assessed upon the sale of a fund's shares, although the average annual return information for the fund in the table would reflect the payment of any sales loads.⁶² Commenters generally supported this presentation of annual return information. The Commission believes that, in light of the different

types of sales loads that may be charged on funds shares, it would be difficult for funds to compute annual returns for the purposes of the bar chart and to communicate the information effectively to investors.⁶³ In addition, the Commission has concluded that more precise return information is not necessary for the bar chart to serve the purpose of graphically showing fund annual returns and illustrating the variability of an investment in a fund over a 10-year period.

Bar Chart Presentation. The Proposed Amendments would allow a single bar chart to include return information for more than one fund. Most commenters supported the proposal, agreeing that it would give funds the appropriate amount of flexibility to present the information in the bar chart in a manner designed to assist investors in making investment decisions. Under Form N-1A, as amended, the bar chart may include returns for more than one fund, subject to the general requirement that the information presented in the bar chart appear in a clear and understandable manner.⁶⁴

Multiple Class Funds. Although the Commission proposed to permit return information for more than one fund to be included in a single bar chart, the Proposed Amendments would require a fund offering more than one class of its shares in a prospectus to limit the information in the fund's bar chart to one class. Commenters uniformly supported this approach, and the Commission is adopting it as proposed.⁶⁵ Unlike individual funds, classes of a fund represent interests in the same portfolio of securities, and the returns of each class differ only to the extent the classes do not have the same expenses. The Commission believes that including return information for all classes offered through a fund's prospectus is not necessary to provide some indication of the risks of investing in the fund. In addition, the table accompanying such a fund's bar chart would provide return information for each class offered in the prospectus so that investors would be able to identify and compare the performance of each class.⁶⁶

The Proposed Amendments would require the bar chart of a fund offering more than one class of shares through a prospectus to reflect annual return

⁵⁹ Item 2(c)(2). Form N-1A, as amended, requires a fund to have at least one calendar year of returns before including the bar chart and requires a fund to modify the narrative explanation accompanying the bar chart and table if the fund does not include the bar chart (e.g., by stating that the information gives some indication of the risks of an investment in the fund by comparing the fund's performance with a broad measure of market performance). Form N-1A, as amended, also requires the bar chart of a fund in operation for fewer than 10 years to include calendar year returns for the life of the fund.

⁶⁰ Rule 498(c)(2)(iii). Unlike Form N-1A, as amended, rule 498, as adopted, requires average annual return information in the performance table in the profile to be as of the most recent calendar quarter and updated as soon as practicable after each quarter of a calendar year. See Profile Adopting Release, *supra* note 1. A fund would update the average annual return information included in its prospectus when filing the annual update of its registration statement required by section 10(a)(3) of the Securities Act.

⁶¹ Instruction 1(a) to Item 2(c)(2). Form N-1A, as amended, requires a fund to present the corresponding numerical return adjacent to each bar. Item 2(c)(2)(ii).

⁶² Instruction 2(a) to Item 2(c)(2). Form N-1A, as amended, requires a fund whose shares are sold subject to a sales load to disclose that the load is not reflected in the bar chart and that, if it were included, returns would be less than those shown. Instruction 1(a) to Item 2(c)(2).

⁶³ In contrast, sales loads can be accurately and fairly reflected in annual return information of the type contained in the table by deducting sales loads at the beginning (or end) of particular periods from a hypothetical initial fund investment.

⁶⁴ See General Instruction C.3(c).

⁶⁵ Instruction 3(a) to Item 2(c)(2).

⁶⁶ Instruction 3(c) to Item 2(c)(2).

⁵⁵ Item 2(c)(2)(ii).

⁵⁶ General Instruction C.1(a) to Form N-1A, as amended, encourages funds to use document design techniques that promote effective communication.

⁵⁷ Item 2(c)(2)(i).

⁵⁸ The Commission understands that funds increasingly organize themselves as series companies and tend to stagger the financial periods of their series so that audits and financial reporting periods are spread over an entire calendar year.

information for the class offered in the prospectus that had the longest performance history over the last 10 years. When two or more classes have returns for at least 10 years, or returns for the same period but fewer than 10 years, the Proposed Amendments would require annual returns for the class with the greatest net assets as of the end of the most recent calendar year. Most commenters addressing the issue opposed this approach. They argued that, if all classes had existed for the same amount of time, the largest class could change from year to year, thus requiring a fund to change the class reflected in the bar chart. According to the commenters, changes in the information each year could be confusing for investors and result in unwarranted administrative burdens for funds. Commenters suggested that the Commission permit a fund having classes with performance histories extending over the same period of time to include the performance of any existing class in the bar chart, maintaining that the effect of expenses on the returns for different classes of shares is not significant.⁶⁷ The Commission is persuaded that allowing a multiple class fund in such a case to choose the class reflected in the fund's bar chart will simplify compliance with Form N-1A's requirements and provide investors with sufficient information to evaluate the variability of returns for any class of the fund. Therefore, Form N-1A, as amended, permits a fund to choose the class to be reflected in the bar chart, subject to certain limitations.⁶⁸ Under Form N-1A, as amended, the bar chart must reflect the performance of any class that has returns for at least 10 years (e.g., a fund could not present a class in the bar chart with 2 years of returns when another class has returns for at least 10 years). In addition, if two or more classes offered in the prospectus have returns for different periods shorter than 10 years, the bar chart must reflect returns for the class that has returns for the longest period.

Tabular Presentation of Fund and Index Returns. The Proposed Amendments would require a table accompanying a fund's bar chart to present the fund's average annual

returns for the last 1-, 5-, and 10-fiscal years (or for the life of the fund, if shorter) and to compare that information to the returns of a broad-based securities market index for the same periods. The purpose of including return information for a broad-based securities market index was to provide investors with a basis for evaluating a fund's performance and risks relative to the market. The proposed approach also was consistent with the line graph presentation of fund performance required in MDFP disclosure.⁶⁹

Commenters generally supported the proposed performance table, but had several technical suggestions. The Commission is adopting the performance table with revisions to clarify the disclosure requirements for the table.⁷⁰

One commenter suggested that the Commission allow funds that have existed for more than 10 years to include average annual returns for the life of the fund in the performance table. The Commission agrees that this information could be helpful for typical investors in such a fund. Form N-1A, as amended, permits, but does not require, a fund to include performance information in the table for the life of the fund if it exceeds 10 years.⁷¹

The Proposed Amendments would require a money market fund, in meeting the proposed performance table requirement, to provide its 7-day yield as of the end of its most recent fiscal year. One commenter questioned this requirement, arguing that it would result in money market funds giving outdated information to investors and suggested that disclosure describing how an investor can obtain the fund's current 7-day yield would be preferable. As amended, Form N-1A gives a money market fund the option of providing in its performance table its 7-day yield

ending on the date of its most recent calendar year or disclosing a toll-free (or collect) telephone number that an investor can use to contact the fund to obtain its current 7-day yield.⁷²

2. Risk/Return Summary: Fee Table (Item 3)

The Proposed Amendments would continue to require a fee table in the prospectus that summarizes the sales charges and fund operating expenses associated with an investment in a fund. Proposed rule 498 also incorporates the fee table requirement in the risk/return summary included in the profile. Including the fee table in both the prospectus and the profile reflects the Commission's strongly held belief in the importance of fees and expenses in a typical investor's decision to invest in a fund. The fee table is designed to help investors understand the costs of investing in a fund and to compare those costs with the costs of other funds. Commenters generally supported the fee table disclosure, and the Commission is adopting it substantially as proposed.

The Commission proposed certain amendments designed to improve communication of the information in the fee table. The Commission proposed to require a narrative explanation of the purpose of the "Example" that accompanies the fee table.⁷³ Recognizing the trend that the typical fund investment is increasing in size,⁷⁴ the Proposed Amendments would increase the initial hypothetical investment included in the Example from \$1,000 to \$10,000.

Several commenters criticized the Example, arguing that, because it is an arbitrary approximation of a fund's actual expenses, the Example is not helpful to investors. These commenters recommended that the Commission eliminate the Example from the fee table disclosure.

The Commission recognizes that any example necessarily has limitations. On balance, however, the Commission believes that the Example provides

⁶⁹ See MDFP Adopting Release, *supra* note 15, at 19054.

⁷⁰ Item 2(c)(2)(ii). Consistent with the Proposed Amendments, Form N-1A, as amended, requires a fund to calculate average annual returns using the same method required to calculate fund performance included in advertisements, which reflects the payment of sales loads and recurring shareholder account fees. Instruction 2(a) to Item 2(c)(2) (incorporating the requirements of Item 21).

⁷¹ Item 2(c)(2)(iii). Form N-1A, as amended, permits a fund that has not had the same adviser for the last 10 years to begin the bar chart and performance information in the table on the date the new adviser began to provide advisory services to the fund, so long as certain conditions are met. Instruction 4 to Item 2(c)(2). Form N-1A, as amended, also requires a fund that changes the index shown in the table to explain the reasons for the change and provide information for both the newly selected and the former index. Instruction 2(c) to Item 2(c)(2). Each of these provisions is consistent with the requirement applicable to the MDFP line graph. Instructions 7 and 11 to Item 5(b).

⁷² Item 2(c)(2)(iii).

⁷³ The Example currently discloses the cumulative amount of fund expenses over 1, 3, 5, and 10 years based on a hypothetical investment of \$1,000 and an annual 5% return. The Commission proposed to require funds to include a narrative explanation to the following effect:

This Example is intended to help you compare the cost of investing in the fund to the cost of investing in other mutual funds.

⁷⁴ See Letter from John C. Bogle, Chairman of the Board, The Vanguard Group, to Barry P. Barbash, Director, Division of Investment Management, SEC (Sept. 16, 1996) (suggesting that few investors have as little as \$1,000 invested in a given fund, and that the average fund investment typically amounts to \$10,000 to 25,000, with the median investment probably in the range of \$6,000 to 7,000).

⁶⁷ In making this argument, commenters cited rule 18f-3 under the Investment Company Act [17 CFR 270.18f-3], which provides that a class of shares may have different expenses for shareholder service fees, distribution fees, or other expenses actually incurred in a different amount by the class. The rule does not permit expenses for advisory or custodial fees, or other management fees, to vary among classes.

⁶⁸ Instruction 3(a) to Item 2(c)(2).

useful information that helps a typical investor understand and compare the expenses of different funds.⁷⁵ The Example is a relatively straightforward means of illustrating the effect of costs in investing in a fund over time. Expressing expense amounts solely as a percentage amount, as is done in the fee table, may not give the average investor enough information to assess the likely effect of a fund's expenses on a dollar amount of an investment in the fund. The addition of a clear narrative explanation of the purpose of the Example should increase its effectiveness in assisting investors' understanding of the Example, and the Commission is adopting this disclosure requirement as proposed.⁷⁶

To ensure that all account fees (e.g., administrative fees charged to maintain an account) paid directly by shareholders are disclosed, the Proposed Amendments would require a new line item in the shareholder transaction section of the fee table describing account fees charged by a fund. The Commission is adopting this requirement as proposed.⁷⁷ In response to comments on the Proposed Amendments, Form N-1A, as amended, clarifies that the table should include account fees that affect a typical investor in a fund and not miscellaneous fees that apply to only a limited number of shareholders based on their particular circumstances.⁷⁸

The Commission proposed to modify some of the captions in the fee table relating to fees and expenses. The revisions were intended to result in fee tables referring consistently to different types of expenses as "fees." In particular, the Proposed Amendments would change the captions for "sales loads" to "sales fees (loads)." The Proposed Amendments also would revise the caption "12b-1 Fees" to read "Marketing (12b-1) Fees." Commenters generally criticized these changes. They maintained that the caption sales fees (loads) was not typically used by the industry or industry commentators and could be confusing to investors. The commenters recommended that the caption in the fee table refer to "sales charges." Commenters also recommended that the caption

"Distribution [and/or Service] (12b-1) Fees" would better describe these fees than the term "Marketing (12b-1) Fees." Commenters said that the types of fees that can be paid in accordance with rule 12b-1 under the Investment Company Act extend beyond marketing fees so that referring to rule 12b-1 fees as marketing fees would be inaccurate.

The Commission believes that the terms suggested by commenters are commonly used by the industry and by the press in covering the industry and may be more easily understood by investors than those proposed. Form N-1A, as amended, modifies the caption for sales fees (loads) to refer to sales charges (loads).⁷⁹ The Commission is retaining the reference to loads because many investors are familiar with this term. Form N-1A, as amended, also requires funds to use the captions suggested by the commenters in referring to distribution fees in the fee table.

The Commission proposed to continue to require a fund to reflect in the fee table its operating expenses for the most recent fiscal year, taking into account expense reimbursements and fee waiver arrangements.⁸⁰ As required by current Form N-1A, a footnote to the fee table would disclose the amount of expenses that would have been incurred had there been no waiver or reimbursement. One commenter expressed strong opposition to showing expenses in the fee table that are reduced by reimbursements or fee waivers. The commenter asserted that investors would interpret the disclosure to mean that the net fee disclosed in the table is what they can expect for the life of their investment in the fund, which may not be the case.

The Commission believes that typical investors need clear disclosure of information about fees charged by funds.⁸¹ Reflecting its continuing concern about the quality of disclosure about fees, the Commission has reconsidered the disclosure of expense reimbursement and fee waiver

arrangements. The Commission believes that typical investors may tend to overlook or disregard information about a fund's fee structure if it is included in a footnote. Moreover, requiring the fee table to show fees that a fund will charge under its contractual arrangement with its investment adviser, without regard to temporary arrangements that may decrease these fees, is consistent with other Form N-1A requirements.⁸²

In view of its desire to improve the quality of fee disclosure, the Commission has revised Form N-1A to require a fund to disclose in the fee table its operating expenses, not taking into account expense reimbursements and fee waiver arrangements.⁸³ To ensure that investors have current information about a fund's expenses, however, Form N-1A, as amended, permits a fund to disclose its operating expenses net of reimbursements and waivers in a footnote to the fee table.⁸⁴ The Commission believes that the fee table disclosure of fund expenses, as amended, will give an investor clearer information about the long-term costs of an investment in a fund, while at the same time allowing the fund to provide current information about its operating expenses.

3. Investment Strategies and Risk Disclosure (Item 4)

In the Form N-1A Proposing Release, the Commission discussed its concerns about disclosure of fund investments

⁷⁵ See, e.g., Instruction 2(a)(i) to Item 3 (requiring funds to disclose deferred sales charges even though they apply only to investors leaving the fund). See also "From Security to Self-Reliance: American Investors in the 1990s," Remarks by Arthur Levitt, Chairman, SEC, before the ICI's General Membership Meeting at the Washington Hilton Hotel, Washington, D.C. (May 22, 1996) (citing a survey by the Investor Protection Trust that found that 2 out of 3 investors believed that no-load mutual funds involve no sales charges or fees, as an example of why the Commission should be concerned about the quality of disclosure of fees charged by funds); Testimony of Barry P. Barbash, Director, Division of Investment Management, SEC, Before the Subcomm. on Capital Markets, Securities, and Government Sponsored Enterprises of the House Comm. on Banking and Financial Services, 104th Cong., 2d Sess. (June 26, 1996) (citing a 1994 survey by the American Association of Retired Persons, the Consumer Federation of America, and the North American Securities Administrators, Inc. that found that the vast majority of American bank customers who hold shares of mutual funds are unaware of the risks and fees involved in the sale of mutual funds).

⁸³ Instructions 3(d)(i) and 5(a) to Item 3.

⁸⁴ Instructions 3(e) and 5(b) to Item 3. A fund also must disclose the period for which the expense reimbursement or fee waiver is expected to continue, or whether it can be terminated at any time at the option of the fund. The Commission expects that, in the latter case, a fund would provide adequate notice to investors and fund shareholders in advance of the termination of the arrangement.

⁷⁵ See Fee Table Adopting Release, *supra* note 14, at 3194.

⁷⁶ Item 3.

⁷⁷ Form N-1A, as amended, clarifies that a fund should disclose only fees charged by or on behalf of the fund, not fees charged by unrelated third parties. Instruction 1(c) to Item 3.

⁷⁸ Instruction 2(d) to Item 3. For example, Form N-1A would not require a fund to include in the fee table a fee charged to accounts with small balances (e.g., \$10 annual fee on accounts less than \$2,500).

⁷⁹ Item 3.

⁸⁰ In an expense reimbursement arrangement, the adviser reimburses the fund for any expenses that exceed a predetermined amount. Under a fee waiver arrangement, the adviser agrees to waive a portion of its fees in order to limit fund expenses to a predetermined amount.

⁸¹ See, e.g., Testimony of Arthur Levitt, Chairman, SEC, before the Subcomm. on Finance and Hazardous Materials of the House Comm. on Commerce (Mar. 6, 1997) (explaining the Commission's concern about investor confusion with fund fees); Remarks by Steven M.H. Wallman, Commissioner, SEC, before the ICI's 1995 Investment Company Directors Conference and New Directors Workshop, Washington, D.C. (Sept. 22, 1995) (noting investors' confusion about the assessment of advisory fees).

and risks typically found in many fund prospectuses.⁸⁵ This disclosure generally consists of descriptions of the types of securities in which a fund may invest and the risks associated with each of those securities.⁸⁶ In the Commission's view, disclosing information about all of the securities in which a fund might invest does not help a typical fund investor evaluate how the fund's portfolio will be managed or the overall risks of investing in the fund. The disclosure also adds substantial length and complexity to fund prospectuses, which discourages investors from reading them.

The Commission has concluded that prospectus disclosure would be more useful to a typical fund investor if it emphasized the principal investment strategies of a fund and the principal risks of investing in the fund, rather than the characteristics and risks of each type of instrument in which the fund may invest.⁸⁷ The Commission believes that funds are appropriately viewed as a means through which a professional money manager provides its services to investors⁸⁸ and that, for that reason, the focus of disclosure about a fund's prospective investments should center on the fund's investment objectives and the principal means used by the fund's adviser to achieve those objectives. Consistent with this view, the Proposed Amendments would require prospectus disclosure that is designed to help investors understand how a particular fund's portfolio will be managed. The purpose of the Proposed Amendments was to implement more effectively the Commission's original goal in adopting Form N-1A that the prospectus should describe a fund's "fundamental

characteristics."⁸⁹ Commenters generally supported the proposed approach to disclosure of the fund's investment operations and attendant risks, and the Commission is adopting it substantially as proposed.

a. *Principal Investment Strategies, Investment Objectives, and Implementation of Investment Objectives.* To assist investors in determining whether a fund meets their investment needs, Form N-1A, as amended, continues to require prospectus disclosure of a fund's investment objectives.⁹⁰ The Commission proposed to shift the focus of disclosure about how a fund intends to achieve its investment objectives away from the current practice of listing all types of securities in which a fund may invest to a discussion of the fund's overall portfolio management.⁹¹ The Commission proposed to require a fund to disclose in its prospectus the principal strategies that it used to achieve its investment objectives, which would include the particular type or types of securities in which the fund will invest principally. This approach was designed to focus disclosure on a fund's anticipated investment operations rather than on investments that the fund might make.

⁸⁵ See 1982 Form N-1A Proposing Release, *supra* note 13, at 815; 1983 Form N-1A Adopting Release, *supra* note 12, at 39729.

⁹⁰ Item 4(a). A fund may refer to its investment objectives as investment goals or any other term that clearly communicates the principal investment design of the fund. Form N-1A, as amended, continues to require a fund to disclose in its prospectus when it may change its investment objectives without a shareholder vote. *Id.* Under current practice, some funds disclose in their prospectuses when a shareholder vote is required to change its investment objectives. The Commission believes that disclosure of this sort is of limited significance to the typical fund investor. In the Commission's view, most investors typically would not expect the investment objectives of their funds to change without their approval. Consistent with this view, Form N-1A, as amended, requires a fund to disclose in its SAI, and not in its prospectus, when a shareholder vote is required to change its investment objectives. Item 12(c)(1)(vii).

⁹¹ Form N-1A currently requires a fund to disclose the types of securities in which it invests or will invest principally, as well as any "special investment practices and techniques" that the fund will use in connection with investing in those securities. Form N-1A also requires disclosure, subject to certain limitations, about "significant investment policies or techniques" that a fund intends to use. One of those limitations directs a fund to limit prospectus disclosure about practices that place no more than 5% of the fund's assets at risk. Many funds disclose in their prospectuses information about securities and investment practices that do not, and may not ever, place more than 5% of the fund's assets at risk, often to retain the flexibility to exceed the 5% threshold in the future. The Commission proposed to eliminate the 5% standard. Form N-1A Proposing Release, *supra* note 8, at 10909. The standard has been deleted in Form N-1A, as amended.

The Commission continues to believe that a clear, concise, and straightforward discussion of investment objectives and strategies is central to effective prospectus disclosure. Therefore, the Commission is adopting the requirement for a fund to disclose how it intends to achieve its investment goals as proposed.⁹²

Under Form N-1A, as amended, whether a particular investment strategy (including a strategy to invest in a particular type of security) is a principal investment strategy depends upon the strategy's anticipated importance in achieving the fund's investment objectives and how the strategy affects the fund's potential risks and returns.⁹³ The Commission believes that a fund should disclose those strategies that are expected to be the most important means of achieving the fund's objectives and that the fund anticipates will have a significant effect on its performance. Form N-1A, as amended, requires a fund, when determining whether a strategy is a principal investment strategy, to consider, among other things, the portion of assets that it expects to commit to the strategy, the portion of assets that it expects to place at risk by the strategy, and the likelihood that it will lose some or all of those assets in implementing the strategy.⁹⁴

The Commission intends that focusing disclosure on a fund's principal investment strategies⁹⁵ will improve the fund's prospectus by eliminating discussions of securities and strategies that do not have a significant role in achieving the fund's investment objectives. Under Form N-1A, as amended, for example, it generally will be unnecessary for a fund (other than, for example, a money market fund) to disclose in its prospectus its cash management practices (e.g., entering into overnight repurchase agreements), because these

⁹² Item 4(b). Instruction 1 to Item 4(b)(1) defines a strategy to include any policy, practice, or technique used to achieve a fund's investment objectives.

⁹³ Instruction 2 to Item 4(b)(1). Form N-1A currently directs a fund not to disclose so-called "negative" practices (i.e., practices in which a fund may not or does not intend to engage). Instruction 3 to Item 4(b)(1) retains this limitation by providing that a negative strategy is not a principal investment strategy. Avoiding disclosure about negative strategies is intended to ensure that prospectus disclosure states what the fund will do to achieve its investment objectives, rather than what the fund will not do.

⁹⁴ Instruction 2 to Item 4(b)(1). As amended, Form N-1A requires a fund to disclose strategies that are not principal strategies in the SAI. Item 12(b).

⁹⁵ A bond fund, for example, typically would discuss generally the maturities, durations, ratings, and types of issuers of the bonds in which the fund invests principally.

⁸⁵ See Form N-1A Proposing Release, *supra* note 8, at 10909.

⁸⁶ The investments described often include instruments, such as illiquid securities, repurchase agreements, and options and futures contracts, that do not have a significant role in achieving a fund's investment objectives.

⁸⁷ The ICI has supported prospectus disclosure that focuses primarily on a fund's broad investment objectives, practices, and associated risks, and not on particular types of securities in which the fund may invest. See, e.g., Letter from Paul Schott Stevens, General Counsel, ICI, to Jonathan G. Katz, Secretary, SEC, at 5 (Apr. 8, 1996); Letter from Paul Schott Stevens, General Counsel, ICI, to Jonathan G. Katz, Secretary, SEC, at 4-6 (July 28, 1995) ("1995 ICI Risk Comment Letter"); Letter from Amy B.R. Lancellotta, Associate Counsel, ICI, to C. Gladwyn Goins, Associate Director, Division of Investment Management, SEC, at 7 (Mar. 7, 1995).

⁸⁸ See "Can We Make Donkeys Fly?," Remarks by Barry P. Barbash, Director, Division of Investment Management, SEC, before the Business Law Section of the ABA, Washington, D.C., at 13 (Nov. 11, 1994); see also 1 T. Lemke, G. Lins & A.T. Smith III, Regulation of Investment Companies § 1.01, at 1-1 (1997).

practices are not typically among the principal investment strategies that a fund uses to achieve its investment objectives.⁹⁶

The Proposed Amendments would require a fund, in discussing its principal investment strategies in its prospectus, to explain in general terms how the fund's adviser decides what securities to buy and sell. This requirement sought to provide investors with essential information about the fund's investment approach and how the fund's portfolio would be managed. One commenter questioned this requirement, arguing that it could place undue emphasis on a fund's decisions to invest in or sell particular securities and result in boilerplate disclosure. The Commission continues to believe that a general discussion of the methods of analysis and investment strategies that a fund's adviser will use in managing the fund will provide typical investors with information that will help them in deciding whether to invest in a fund. Therefore, the Commission is adopting the proposed disclosure requirement regarding the manner in which the investment adviser determines to buy and sell securities.⁹⁷

Concentration. The Commission proposed to continue to require a fund to disclose in its prospectus any policy to concentrate its investments in any industry or group of industries. This requirement reflects the view that such a policy is likely to be central to a fund's

ability to achieve its investment objectives,⁹⁸ and that a fund that concentrates its investments will be subject to greater risks than funds that do not follow the policy. The Commission's staff has taken the position for purposes of the concentration disclosure requirement that a fund investing more than 25% of its assets in an industry is concentrating in that industry.⁹⁹ The Proposed Amendments incorporated this percentage test into Form N-1A.

Commenters supported requiring a fund to disclose in its prospectus its policies on industry concentration,¹⁰⁰ and the Commission continues to believe that 25% is an appropriate benchmark to gauge the level of investment concentration that could expose investors to additional risk. Therefore, the Commission is adopting this disclosure requirement as proposed.¹⁰¹

Temporary Defensive Positions. The Proposed Amendments would require disclosure about a fund's policy that permits the fund to take "temporary defensive positions" to respond to adverse market, economic, political, or other conditions. The purpose of the requirement was to make investors aware of potential changes in a fund's investments that are not generally contemplated by, or are otherwise

inconsistent with, a fund's principal investment objectives and policies. In particular, the Proposed Amendments would require a fund to disclose the percentage of its assets that may be committed to temporary defensive positions (e.g., up to 100% of the fund's assets), the risks, if any, associated with the positions, and the likely effect of these positions on the fund's performance. Although commenters generally supported disclosure that a fund may take temporary defensive positions, they found problematic disclosure of the percentage of assets that may be committed to temporary defensive positions and the likely effect of these positions on the fund's performance. Commenters argued that, to maintain flexibility, a fund typically would disclose that all of its assets could be committed to temporary positions. The commenters maintained that such disclosure was boilerplate and would not be meaningful to investors. In addition, commenters asserted that funds would find it difficult to predict the likely effect of temporary defensive positions on their performance.

The Commission believes that a typical fund investor would want to know about investment positions that a fund can take from time to time that are inconsistent with the fund's central investment focus. On the other hand, the Commission is aware that, in practice, the disclosure about temporary investment positions currently appearing in some fund prospectuses is so lengthy and detailed as to suggest incorrectly that a fund's temporary investment policies are more important than the fund's investment objectives and the principal investment strategies used to achieve them. The Commission believes that disclosure of this sort, which discusses possible but not probable investments of funds, is inconsistent with the fundamental disclosure principles underlying Form N-1A. In the Commission's view, however, disclosure that a fund may take temporary defensive positions to respond to market conditions will alert investors to the possibility that a fund may vary its investments on a temporary basis. Therefore, Form N-1A, as amended, requires a fund to disclose, if applicable, that in response to unfavorable market conditions it may make temporary investments that are not consistent with its principal investment objectives and policies.¹⁰²

Portfolio Turnover. Form N-1A currently requires all funds to state their portfolio turnover rates in their financial highlights tables included in their

⁹⁶ Under the disclosure principles incorporated into Item 4 of Form N-1A, as amended, a fund that has a principal investment strategy of allocating its assets among stocks, bonds, and money market instruments also would need to disclose its use of cash equivalents. Whether a fund needs to include disclosure in its prospectus about matters such as holding or trading stock futures and option contracts, engaging in securities lending, purchasing securities on a "when-issued" basis, or investing in illiquid or restricted securities will depend on the extent to which these instruments or practices have a significant role in achieving the fund's investment objectives. A fund generally would not need to include disclosure about restricted securities in its prospectus because investments in this type of security usually would not be so significant as to constitute a principal investment strategy of the fund. Whether a fund's use of stock futures, option contracts, or other derivatives would need to be disclosed in the fund's prospectus would depend in large part on whether the strategy poses the risk of substantial gains or losses for the fund.

⁹⁷ Item 4(b)(2). In meeting this requirement, an equity fund could describe, for example, whether it emphasizes value or growth, or blends the two approaches. A value-oriented fund might state that the fund's adviser selects stocks that it considers to be undervalued by recognized measures of economic value such as earnings, cash flow, and book value. Other types of disclosure about a fund's investment philosophy might include whether the fund invests in stocks based on a "top-down" analysis of economic trends or a "bottom-up" analysis based on the financial condition and competitiveness of individual companies.

⁹⁸ That such a policy can be central to a fund's meeting its investment objective is suggested by section 8(b)(1) of the Investment Company Act [15 U.S.C. 80a-8(b)(1)], which requires a fund to disclose in its registration statement any policy to concentrate its investments in a particular industry or group of industries. Under section 13(a)(3) [15 U.S.C. 80a-13(a)(3)], a fund must obtain shareholder approval to change a policy to concentrate its investments.

⁹⁹ Guide 19 to Form N-1A.

¹⁰⁰ Some commenters questioned an existing position of the Commission's staff regarding the ability of a fund to adopt a policy of shifting between concentrated and non-concentrated status. One commenter requested reconsideration of the staff's long-standing position that a fund cannot, consistent with the provisions of sections 8(b)(1) and 13(a)(3), have an investment policy permitting the fund to concentrate or not concentrate its investments as determined by the fund's board in its discretion. The commenter argued that this position was too rigid and that a fund's board of directors should have the flexibility to shift the fund's concentration policy, subject to making appropriate disclosure to fund shareholders. The Commission recognizes that fund investment practices have changed as a result of the growth of securities markets and assets invested in funds. The Commission believes that it may be appropriate to reconsider the issue raised by the commenter, but has concluded that the issue should not be reconsidered in the context of the revisions of Form N-1A being adopted today. The Commission has requested that the Division review its positions on concentration, consulting with industry representatives as appropriate, with a view toward allowing funds a greater degree of flexibility in establishing concentration policies.

¹⁰¹ Instruction 4 to Item 4(b)(1).

¹⁰² Instruction 6 to Item 4(b)(1).

prospectuses.¹⁰³ Under the Proposed Amendments, a fund would be required to supplement the information in its financial highlights table by disclosing certain information about its portfolio turnover rate if it anticipated having a turnover rate of 100% or more in the coming year.¹⁰⁴ The disclosure would be required to include an explanation of the tax consequences and effect of increased trading costs on the fund's performance.¹⁰⁵ Most commenters questioned or opposed the proposed disclosure about portfolio turnover rate. Some commenters suggested that the Commission move this disclosure to the SAI or require it in the MDPF in fund shareholder reports. Other commenters argued that a fund's portfolio turnover rate may reflect the fund's response to particular market events, or special circumstances affecting the fund's investments, that are difficult to predict. These commenters argued further that the unpredictable nature of fund portfolio turnover rates would lead to generic or boilerplate disclosure that would not be meaningful to investors in assessing various funds. The commenters suggested that Form N-1A should instead require disclosure about portfolio turnover rates as part of a discussion of a fund's principal investment strategies when a fund's investment approach is expected to include active and frequent trading (as opposed to, e.g., a "buy and hold" strategy).

The Commission continues to believe that a discussion about a fund's portfolio turnover in some cases is relevant to typical fund investors. The Commission notes, for instance, that increased portfolio turnover can on some occasions result in tax consequences that can be significant to investors and that can be viewed as a cost to an investor of holding fund shares. Moreover, investors may find information about portfolio turnover particularly relevant in light of recent changes to the tax laws that reduce the tax rate on capital gains.¹⁰⁶ The

Commission agrees with commenters, however, that disclosure about portfolio turnover and its consequences should be made only if an increased portfolio turnover rate is likely to result from the fund's investment objectives and principal investment strategies and would have a significant effect on a fund's returns. Therefore, Form N-1A, as amended, requires a fund to discuss the consequences of its portfolio turnover rate if the fund anticipates that active and frequent trading of portfolio securities will be a likely result of implementing its principal investment strategies.¹⁰⁷

Classification and Policies. The Commission proposed to move to the SAI disclosure about a fund's legal status as an open-end management company,¹⁰⁸ as well as disclosure relating to certain policies identified under the Investment Company Act, such as borrowing money, issuing senior securities, underwriting securities issued by other persons, investing in real estate or commodities, and making loans.¹⁰⁹ Commenters supported moving this disclosure, agreeing that it is not likely to be significant to a typical fund investor. Form N-1A, as amended, requires the disclosure to appear in the SAI.¹¹⁰

b. Risk Disclosure. Risk disclosure in fund prospectuses typically consists of

detailed, and often technical, descriptions of the risks associated with particular securities in which a fund may invest. Just as disclosure about each type of security in which a fund may invest does not appear to communicate effectively to investors how the fund's portfolio will be managed, disclosure about the risks associated with each type of security in which the fund may invest does not effectively communicate to them the overall risks of investing in the fund. In the Commission's view, disclosing the risks of each possible portfolio investment, rather than the overall risks of investing in a fund, does not help investors evaluate a particular fund or compare the risks of the fund with those of other funds.

The Commission proposed, consistent with its conclusion that mere inventories of potential portfolio securities do not assist typical investors in selecting among funds, to modify prospectus disclosure requirements in Form N-1A about the risks associated with specific securities. The Proposed Amendments would require a fund to disclose the risks to which the fund's particular portfolio as a whole is expected to be subject and to discuss the circumstances that are reasonably likely to affect adversely the fund's net asset value, yield, or total return. Commenters generally supported the proposed approach to the disclosure of risk, and the Commission is adopting it as proposed.¹¹¹

The Commission notes that a fund could meet the risk disclosure requirements of Form N-1A, as amended, by including in its prospectus a discussion of the risks of the asset class or classes that the fund expects to hold principally, together with a discussion of the risks to the fund of holding specific types of securities within the asset class or classes. Under such an approach, a fund investing in the equity securities of companies with small market capitalizations, for example, would discuss market risk as a general risk of holding equity securities, as well as the specific risks associated with investing in small capitalization companies (e.g., that these stocks may be more volatile and have returns that vary, sometimes

¹⁰⁷ Instruction 7 to Item 4(b)(1).

¹⁰⁸ As explained in the Form N-1A Proposing Release, this information is technical in nature and repetitive of other information required to be disclosed elsewhere in a fund's prospectus. All funds that register on Form N-1A must be classified as management companies under section 4 of the Investment Company Act and subclassified as open-end companies under section 5. 15 U.S.C. 80a-4, -5. Funds may be further subclassified as diversified or non-diversified under section 5.

¹⁰⁹ Section 8 of the Investment Company Act requires a fund to disclose these policies in its registration statement. Section 8 also requires a fund to disclose in its registration statement its policies on concentration and portfolio turnover, see *supra* notes 100 and 105 and accompanying text, and any other policies that the fund deems fundamental or that may not be changed without shareholder approval. Although they are not required to do so, some funds disclose in their prospectuses their policies with respect to the practices identified in section 8. As noted in the Form N-1A Proposing Release, *supra* note 8, at 10911, the Proposed Amendments sought to provide a clearer directive to disclose these policies in the SAI. To the extent it is a principal investment strategy of a fund within the meaning of Item 4(b)(1) of Form N-1A, as amended, however, a practice identified in section 8 would be required to be disclosed in the fund's prospectus.

¹¹⁰ Items 12(a) and (c). Form N-1A, as amended, continues to require a non-diversified fund to disclose its non-diversified status in the prospectus. See Item 2(c)(iv). In particular, the Form requires a non-diversified fund to describe the effects of non-diversification (e.g., by indicating that, compared to diversified funds, the fund may invest a greater percentage of its assets in a particular issuer) and to disclose the risks of investing in the fund.

¹¹¹ Item 4(c). The requirement that a fund disclose the risks to which its particular portfolio as a whole is subject is intended to elicit risk disclosure specific to that fund. In meeting this requirement, a growth fund, for example, would be required to disclose the risks of the types of growth stocks in which the fund invests or expects to invest, as opposed to describing the general risks of equity securities.

¹⁰³ Item 3 of Form N-1A. Form N-1A, as amended, retains this requirement. Item 9.

¹⁰⁴ See Form N-1A Proposing Release, *supra* note 8, at 10910.

¹⁰⁵ The Proposed Amendments would require a fund to disclose its anticipated portfolio turnover rate and what that rate means (e.g., that a portfolio turnover rate of 200% is equivalent to the fund buying and selling all of the securities in its portfolio twice in the course of a year). The Proposed Amendments also would require a fund to explain the tax consequences to shareholders of the fund's high portfolio turnover rate. In addition, the Proposed Amendments would require a fund to explain how trading costs associated with the fund's high portfolio turnover may affect the fund's performance.

¹⁰⁶ See *infra* note 164.

significantly, from the overall stock market).¹¹²

The Commission did not propose to require a fund to disclose information designed to quantify its expected risk levels, citing, among other things, the lack of a broad consensus as to what measure of risk would best serve fund investors.¹¹³ Comments submitted in response to the Commission's Risk Concept Release asserted that investors have too wide a range of investment goals and ideas of what "risk" means to be well served by a single quantitative risk measure. In addition, commenters argued that, if the Commission mandated a risk measure, investors might rely on it as a definitive standard despite the lack of general agreement on how to measure risk.

As adopted, the prospectus risk/return summary and amendments to the general risk disclosure requirements of Form N-1A are designed to improve fund risk disclosure without raising the concerns associated with Commission-mandated quantitative information. While it is not adopting specific quantitative risk disclosure requirements, the Commission believes that new approaches to measuring risk are emerging and that quantitative risk information may be useful to some investors.¹¹⁴ The Commission notes that a fund may include quantitative risk disclosure in its prospectus if the information is presented in a manner consistent with the guidelines on the inclusion of information not required by Form N-1A.¹¹⁵

4. Management's Discussion of Fund Performance (Item 5)

The Proposed Amendments would continue to require a fund to provide its MDFP and the related line graph

comparing the fund's returns to a broad-based securities market index in either its prospectus or its annual report. The Commission is adopting the MDFP as proposed with minor changes.¹¹⁶ The Commission notes in support of this decision that a review of MDFP disclosure by the Commission's Division of Investment Management ("Division") indicates that the discussion of fund performance and the line graph have generally provided fund shareholders with useful, comparative information about a fund's performance.

As discussed in the Proposed Amendments, funds typically choose to include the MDFP in their annual reports, rather than in their prospectuses. This choice may be explained, in part, by the relevance of the MDFP to other current financial information appearing in annual reports.¹¹⁷ As a result of recent amendments to the Investment Company Act, the Commission has the authority to require additional disclosure in annual and semi-annual reports as necessary or appropriate in the public interest or for the protection of investors.¹¹⁸ Several commenters recommended that the Commission exercise this authority and require the MDFP to appear in fund annual reports, asserting, among other things, that shareholders read these reports more frequently than prospectuses. Commenters also suggested that, like other information contained in an annual report, the MDFP analyzes a fund's past performance rather than the fund's anticipated future course of action, which is the central focus of a fund's prospectus.

Although it acknowledges that a fund's annual report may be the preferred location for the MDFP disclosure, the Commission is deferring consideration of its requirements as to the placement of the MDFP discussion. The Commission has concluded that MDFP disclosure should be considered as part of a comprehensive reassessment of the Commission's existing rules specifying the disclosure to be included in fund reports to shareholders. The Commission believes that such an initiative would be an important future step in improving the quality of fund disclosure documents and has directed the Division to begin work on proposed amendments to fund periodic reporting

requirements. The Commission has asked that, in connection with such a proposal, the Division consider whether certain disclosure required by Form N-1A would be more useful to investors in shareholder reports. In this regard, the Commission notes its preliminary view that an "integrated" approach to registration and reporting requirements could improve the overall information about a fund available to investors.¹¹⁹

5. Management, Organization, and Capital Structure (Item 6)

a. Management and Organization. The Commission proposed to abbreviate disclosure in the prospectus about a fund's management and organization and move certain of this information to the SAI. Commenters generally supported the Proposed Amendments, and the Commission is adopting them as proposed with modifications to reflect suggestions of commenters.

Management Disclosure. Under existing Form N-1A, all funds must disclose the rate of fees that they pay their investment advisers in their fee tables. As stated above, the Commission has retained this requirement, which the Commission believes is among the core requirements of the Form. The Proposed Amendments would continue to require, in addition to the disclosure contained in the fee table, prospectus disclosure about investment advisory services provided to, and investment advisory fees paid by, a fund. Some commenters recommended eliminating disclosure about the investment advisory fees, which they argued is merely duplicative of the information in the fee table. The Commission disagrees with this argument. The Commission believes that a concise and straightforward description of the services that an investment adviser provides to a fund along with disclosure

¹¹² The Commission emphasizes that this approach is one way, but not the only way, that a fund can seek to use in meeting the risk disclosure requirements of Form N-1A, as amended.

¹¹³ See Form N-1A Proposing Release, *supra* note 8, at 10911. The Risk Concept Release requested comment whether quantitative risk measures, such as standard deviation, beta, and duration, would help investors evaluate and compare fund risks. Risk Concept Release, *supra* note 18, at 17176. While more than half of the individual commenters and some industry members expressed a desire for some form of quantitative risk information, commenters did not broadly support any one risk measure. In addition, a number of commenters strongly criticized requiring disclosure of quantitative risk information. See, e.g., 1995 ICI Risk Comment Letter, *supra* note 87, at 10-16 (questioning, among other things, the feasibility of developing a single, all-encompassing measure of fund risk and whether quantitative information would be understood and accurately used by fund investors).

¹¹⁴ See, e.g., Walbert, What's the Risk?, Institutional Investor, June 1997, at 188; Whitford, Why Risk Matters, Fortune, Dec. 29, 1997, at 147.

¹¹⁵ See General Instruction C.3(b).

¹¹⁶ Item 5.

¹¹⁷ See Form N-1A Proposing Release, *supra* note 8, at 10912.

¹¹⁸ National Securities Markets Improvement Act of 1996, Pub. L. 104-290 (1996) ("Improvements Act"), section 206(f) (amending section 30 of the Investment Company Act [15 U.S.C. 80a-29] to add new paragraph (f)).

¹¹⁹ In the past, the concept of "integrated" disclosure for funds has addressed eliminating duplicative registration requirements under the Investment Company Act and the Securities Act. See Investment Company Act Release No. 10378 (Aug. 28, 1978) [43 FR 39548] (adopting integrated registration statements for funds and closed-end investment companies by replacing separate registration statement forms under the Investment Company Act and Securities Act). New disclosure initiatives for funds could expand the concept of integrated disclosure to include an approach similar to that adopted for corporate issuers, which integrates registration statement disclosure requirements with periodic reports. See Securities Act Release Nos. 6235 (Sept. 2, 1980) [45 FR 63693] and 6383 (Mar. 3, 1982) [47 FR 11386] (proposing and adopting new forms for the offering of securities under the Securities Act). At least one commenter has cited potential benefits to fund shareholders of an integrated approach to fund disclosure. T. Lemke, Mutual Fund Disclosure Revisited, Investment Companies 1989 (Practising Law Institute's Corporate Law and Practice Course Handbook Series No. 605).

of the investment advisory fee rate for a recent fiscal year, as well as providing this information in a single place in a prospectus, can help a typical investor understand the management of the fund. Therefore, the Commission is adopting the disclosure requirements as proposed.¹²⁰

In the Form N-1A Proposing Release, the Commission requested comment whether information about the amount of fees paid to a sub-adviser or sub-advisers of a fund helps investors evaluate and compare the fund to other funds. The Commission also asked whether this type of disclosure obscures the aggregate investment advisory fee paid by a particular fund.¹²¹ Most commenters supported disclosure of the aggregate fee only, maintaining that information about individual sub-advisory fees is not relevant to investors because it does not help them compare the fees charged by different funds. The Commission is persuaded that information about sub-advisory fees is not necessary for a typical fund investor, but may be of interest to some investors. Therefore, Form N-1A, as amended, requires prospectus disclosure of the aggregate advisory fees paid by a fund and disclosure in the SAI of the amount of sub-advisory fees paid by the fund.¹²²

Portfolio Manager. The Proposed Amendments would continue to require prospectus disclosure indicating the person or persons responsible for the day-to-day management of a fund's portfolio. Under the Proposed Amendments, and as currently permitted by instructions to Form N-1A, a fund could, in meeting this requirement, indicate that a committee was responsible for a fund's portfolio management if, under the organizational arrangements of the fund (or its investment adviser), no one person was responsible for making recommendations to the committee.

One commenter criticized the proposed portfolio manager disclosure requirement, arguing that it may have the effect of creating the false impression that the identity of the individual portfolio manager of a fund is paramount to the fund's performance. According to the commenter, the collective experience, resources, personnel, and reputation of a fund's investment adviser often are of greater importance to the fund's performance than the fund's portfolio manager. The commenter recommended that, to

enable funds to describe their management structures more accurately than they can under Form N-1A's existing provisions, the Commission require disclosure of the identity of a fund's portfolio manager only when a change in the identity of the manager would be material to investors (e.g., when a fund group promotes the identity of individual portfolio managers). The commenter suggested that the Commission, in the alternative, clarify the disclosure obligations of a fund for which the day-to-day responsibilities for the fund's portfolio investments are shared by a committee and certain individuals.

The Commission is not persuaded that it should adopt the commenter's recommendation that the Commission tie portfolio manager disclosure to a fund group's marketing efforts. Such a recommendation is substantially similar to proposals considered and rejected by the Commission when it adopted Form N-1A's existing portfolio manager disclosure requirement.¹²³ The Commission believes that typical investors in a fund should have clear and succinct information about the individuals who significantly affect the fund's investment operations. In the Commission's experience, Form N-1A's existing requirement appropriately serves this purpose and should not be changed significantly. To the Commission's knowledge, the requirement has not generally resulted in funds inaccurately describing the individuals responsible for their management.

Although the Commission believes that Form N-1A's portfolio manager disclosure requirements should not be changed significantly, the Commission has concluded that it is appropriate to provide additional guidance in Form N-1A as to the disclosure obligations of a fund for which day-to-day management responsibilities are shared. New instructions to Form N-1A's portfolio manager disclosure requirements have been added for this purpose.¹²⁴

Legal Proceedings. The Proposed Amendments would continue to require prospectus disclosure of any material pending legal proceedings involving a fund, its investment adviser, or principal underwriter. The Commission also proposed to expand Form N-1A's legal proceedings disclosure requirement to cover those proceedings contemplated by a governmental authority. In proposing this change, the Commission sought to conform Form N-

1A's requirements to those included in other Commission forms applying to other types of issuers.¹²⁵

Some commenters questioned the requirement that a fund disclose contemplated proceedings, arguing that a fund would find it difficult to assess whether proceedings of a governmental entity are in fact contemplated. The Commission is not persuaded by this argument and has adopted the legal proceedings requirement as proposed.¹²⁶ In support of its decision, the Commission notes that issuers that have been subject to the requirement appear not to have experienced significant difficulty in complying with it.

Board of Directors. Form N-1A currently requires a fund to include in its prospectus a brief description of the responsibilities of the fund's board of directors under the applicable laws of the jurisdiction in which the fund is organized. Recognizing that the disclosure provided by a fund in response to this item typically recites the substance of specific legal requirements, the Commission proposed to move this disclosure to the SAI. Commenters supported disclosing the director information in the SAI, arguing that the information does not help a typical investor make a decision to invest in a fund. Form N-1A, as amended, requires a fund to disclose this information in the SAI.¹²⁷

The Commission requested comment in the Form N-1A Proposing Release whether a fund's prospectus should include the names, experience, and compensation of a fund's directors, as well as information, such as addresses and telephone numbers, indicating how a shareholder could contact the directors.¹²⁸ The Commission also requested comment whether this information, if required, should be given only for a fund's independent directors, accompanied by disclosure of the number of independent directors in comparison to the number of directors on the fund's board.¹²⁹

Most commenters strongly opposed additional disclosure about directors in

¹²⁵ See Item 12 of Form N-2 [17 CFR 274.11a-1] for closed-end investment companies; Item 103 of Regulation S-K [17 CFR 229.103] for non-investment company issuers. See also Investment Company Act Release No. 19155 (Nov. 30, 1992) [57 FR 56862] (modifying Form N-2 to conform to Item 103).

¹²⁶ Item 6(a)(3).

¹²⁷ Item 13(a).

¹²⁸ Form N-1A Proposing Release, *supra* note 8, at 10912.

¹²⁹ The Investment Company Act contains a number of requirements relating to the composition of a fund's board. See, e.g., sections 10(a) and 15(f) of the Investment Company Act [15 U.S.C. 80a-10(a), -15(f)].

¹²⁰ Item 6(a).

¹²¹ See Form N-1A Proposing Release, *supra* note 8, at 10912.

¹²² Instruction 3 to Item 6(a)(1) and Item 15(a)(3).

¹²³ See MDFP Adopting Release, *supra* note 15, at 19051-52.

¹²⁴ Instructions to Item 6(a)(2).

the prospectus. While a few commenters supported identifying the directors in the prospectus, most argued that this information is not essential to a typical investor in making a decision about investing in a fund and would only serve to lengthen the prospectus. The commenters recommended that the SAI or annual report to shareholders would be a better place for disclosing the identity of directors.

Commenters addressing the issue uniformly opposed requiring a fund to disclose directors' compensation in the prospectus, arguing that these fees are only a small part of total fund expenses and are not relevant to a typical investor in making a decision to invest in a fund. The commenters also noted that director compensation is disclosed in a fund's SAI, where it can be used by those investors interested in the information, and in a fund's proxy statement, where it can be assessed by all shareholders of the fund in the context of an election of directors.¹³⁰

All commenters addressing the issue emphatically opposed the disclosure of information in either the prospectus or the SAI indicating how shareholders can contact directors. Commenters, particularly independent directors of funds, argued that this information would result in an unwarranted loss of privacy for board members and numerous calls to directors to which they would be ill-equipped to respond. Commenters also argued that disclosure of this information would serve as a disincentive for qualified individuals to serve as directors and that all investor comments regarding a fund should be directed to representatives of the fund's management, and not to its directors.

The Commission believes that mandating more information about fund directors than is available under its existing disclosure rules may be appropriate in light of independent directors' role as "watchdogs" of fund shareholders as contemplated by the Investment Company Act.¹³¹ The

Commission, however, is not convinced, particularly in light of the overwhelmingly negative comment on this issue, that the prospectus is the appropriate document for this disclosure. Therefore, Form N-1A, as amended, does not require additional information of the sort described in the Proposed Amendments to be provided about a fund's directors. The Commission, however, has directed the Division to consider director disclosure issues as part of an initiative to improve shareholder reports.¹³²

Management and Organization. The Commission proposed to move to the SAI two items of disclosure about a fund's management and organization that the Commission believes are only of minimal importance to typical fund investors. The Proposed Amendments would no longer require a fund to disclose in its prospectus the name of any person that controls the fund's investment adviser and the name of any person that controls the fund.¹³³ The Proposed Amendments also would no longer require a fund to state in its prospectus, if applicable, that the fund engages in brokerage transactions with affiliated persons and allocates brokerage transactions based on the sale of fund shares.¹³⁴ The information called for in response to these two items typically results in generic disclosure that restates applicable legal requirements and does not appear to assist investors in deciding whether to invest in a particular fund. Commenters generally supported placing this information in the SAI. Form N-1A, as amended, requires a fund to disclose information in the SAI regarding controlling persons of the investment adviser and brokerage transactions with affiliated persons.¹³⁵

The Commission proposed to move to the SAI disclosure about a fund's form of organization along with the date and state of the fund's incorporation. Because most funds are organized in one of a few states as corporations or

business trusts, disclosure about a fund's organization does not appear to help investors evaluate a particular fund or compare the fund to other funds. For that reason, the Commission is adopting its proposal to move information about a fund's organization to the SAI.¹³⁶

The Proposed Amendments would not include the disclosure about a fund's expenses currently required by Form N-1A in the discussion of the fund's management. This information is included in the fee table and the financial highlights table. Additional information about fund expenses also is available in a fund's SAI. Eliminating repetitive information is one of the basic objectives of the Commission's efforts to improve fund disclosure documents. Consistent with this goal, Form N-1A, as amended, does not require this additional information about fund expenses in disclosure about a fund's management.

b. Capital Structure. The Proposed Amendments would continue to require prospectus disclosure about any limits on the transferability of, and material obligations or potential liabilities associated with, a fund's shares. One commenter suggested that disclosure should appear in the SAI rather than in the prospectus, asserting that the information is technical and generally does not vary among funds. The commenter recommended that the Commission instead limit disclosure in a fund's prospectus to unusual provisions that may pose special risks to the fund's shareholders. The Commission agrees that descriptions of all potential restrictions and possible consequences of holding fund shares are of only marginal significance to typical investors in selecting among funds. Form N-1A, as amended, thus requires prospectus disclosure of only unique or unusual restrictions or potential liabilities associated with holding a fund's shares (other than investment risks) that may expose an investor in the

¹³⁰ Item 13(d); Item 22(b)(6) of Schedule 14A [17 CFR 240.14a-101].

¹³¹ These responsibilities of directors include, among other things: (i) Evaluating and approving the fund's investment advisory and principal underwriting contracts (sections 15(a), (c) [15 U.S.C. 80a-15(a), (c)] and the use of fund assets to pay for the distribution of fund shares (rule 12b-1); (ii) selecting the fund's independent public accountants (section 32(a)(1) [15 U.S.C. 80a-31(a)(1)]); and (iii) reviewing and approving transactions with affiliates under various rules (e.g., rule 10f-3 [17 CFR 270.10f-3]; rule 17a-7 [17 CFR 270.17a-7]; rule 17e-1 [17 CFR 270.17e-1]). Directors have fiduciary duties to the fund and its shareholders under section 36(a) of the Investment Company Act [15 U.S.C. 80a-35(a)] and under state law. See 3 W. Fletcher, *Cyclopedia of the Law of Private Corporations* section 838 (rev. perm. ed.

1994); *Hanson Trust PLC v. ML SCM Acquisition, Inc.*, 781 F.2d 264, 275 (2d Cir. 1986). See also *Burks v. Lasker*, 441 U.S. 471 (1979) (upholding the authority of independent directors to take actions under state law to the extent not inconsistent with the policies of the Investment Company Act and the Investment Advisers Act of 1940 [15 U.S.C. 80b-1, *et seq.*] (the "Advisers Act")).

¹³² See *supra* note 119 and accompanying text.

¹³³ Transactions between controlling persons and a fund are subject to restrictions under the Investment Company Act. See, e.g., section 17 [15 U.S.C. 80a-17] and rules 17a-6 and 17d-1 [17 CFR 270.17a-6, .17d-1].

¹³⁴ Payment of commissions to affiliated brokers is governed by section 17(e) of the Investment Company Act [15 U.S.C. 80a-17(e)] and rule 17e-1 [17 CFR 270.17e-1].

¹³⁵ Items 15(a) and 16(b)(1).

¹³⁶ Item 11(a). The Commission proposed to continue to require a fund to disclose its form of organization and place of incorporation in the prospectus if a fund is organized outside the United States and registered under section 7(d) of the Investment Company Act [15 U.S.C. 80a-7(d)]. Although this type of organization is permitted by the Investment Company Act, only a limited number of funds that are organized and incorporated outside of the United States have registered under the Act. A fund organized in this manner would be subject to certain legal requirements under the Investment Company Act, regardless of whether those requirements were described in the fund's prospectus. Following one of Form N-1A's underlying principles to avoid prospectus disclosure that simply restates applicable legal provisions, the Commission has determined to incorporate this disclosure requirement in Item 11(a) of the SAI.

fund to significant risks.¹³⁷ Under Form N-1A, as amended, a fund would be required to discuss in its SAI generally applicable legal provisions relating to holding fund shares.¹³⁸

The Proposed Amendments would move disclosure about shareholder voting rights to the SAI. In explaining this decision, the Commission stated that the Investment Company Act sets out specific rights of fund shareholders,¹³⁹ which typically results in this disclosure being generic in nature and of little consequence to investors in evaluating and comparing funds. Commenters generally supported including this information in the SAI, agreeing that it is not essential to an investment decision. Form N-1A, as amended, requires this disclosure in the SAI.¹⁴⁰

Form N-1A currently requires a fund to describe in its prospectus any class of senior securities issued by the fund, and any "other class" of its shares that is outstanding. In the Commission's experience, disclosure in fund prospectuses made in response to this

requirement merely restates legal requirements in the Investment Company Act and its rules, which limit a fund's ability to issue certain classes of shares or senior securities.¹⁴¹ The Commission concluded that disclosure of this sort is only of minimal significance to a typical investor in deciding whether to invest in a fund, and proposed to delete it from fund prospectuses.¹⁴² Commenters agreed with the Commission's conclusion, and Form N-1A, as amended, does not require prospectus disclosure of information about other classes of fund shares (including senior securities).¹⁴³ The SAI would continue to require a fund to disclose the rights of any authorized securities of the fund other than capital stock.¹⁴⁴

6. Shareholder Information (Item 7)

a. General Purchase and Sale Information. The Proposed Amendments would retain most of the disclosure requirements concerning a fund's purchase and redemption procedures, dividends, and distributions currently required by Form N-1A. The Commission believes that the required information is relevant to a typical investor contemplating an investment in a fund. In the Form N-1A Proposing Release, the Commission

acknowledged that disclosure about purchase and redemption procedures is often quite lengthy and may contribute to the perception that prospectuses are too long and complicated and not worth reading.¹⁴⁵ The Commission also observed, however, that much of the purchase and redemption disclosure typically contained in fund prospectuses is not required by Form N-1A, but is included by funds for marketing or other business purposes. The Commission believes that it is appropriate for a fund to have the option to add disclosure to its prospectus for these purposes, and thus the Commission did not propose to limit prospectus disclosure of funds' purchase and sale procedures to that expressly required by Form N-1A. The Commission is adopting the requirements to disclose purchase, redemption, and other shareholder information substantially as proposed with modifications to reflect commenters' suggestions.¹⁴⁶

Several commenters on the Form N-1A Proposing Release suggested that the Commission specifically acknowledge as consistent with its rules the ability of a fund at its option to place certain information about purchase and redemption procedures in a separate document that would be delivered to an investor no later than with the confirmation of the investor's purchase of the fund's shares. According to the commenters, this separate document, or "owner's manual," can help streamline prospectus disclosure and provide an efficient means for a fund group to provide disclosure about purchase and redemption procedures that is common to all funds in the group. The Commission believes that this sort of disclosure document is consistent with the disclosure principles underlying the revisions to Form N-1A and that investors may find it easier and less confusing to consult and retain a separate document describing certain procedures relating to purchasing and redeeming fund shares, which are typically mechanical in nature. In the Commission's view, as long as the purchase and sale information in a fund's prospectus is not reduced below the minimum required by Form N-1A, the fund would be able to create and use

¹³⁷ Item 6(b). The prospectuses of funds organized as business trusts under Massachusetts law sometimes include disclosure that, under Massachusetts law, fund shareholders may be held personally liable as partners for the fund's obligations under certain limited circumstances. In adopting Form N-1A in 1983, the Commission stated that disclosure of possible contingent shareholder liability under this form of organization should not be required if a fund believes that, because of arrangements to protect shareholders, the likelihood of loss or expense to shareholders is remote. 1983 Form N-1A Adopting Release, *supra* note 12, at 37933-34. See 3 T. Frankel, *The Regulation of Money Managers* 79 (1980) (for funds organized as Massachusetts business trusts, personal liability generally is considered remote). In connection with the Proposed Amendments, the staff undertook a review of fund prospectus disclosure. The review indicated, among other things, that certain funds continue to include disclosure about Massachusetts business trusts and state that shareholder liability is remote. In the Commission's view, this disclosure appears to be unwarranted, and the Commission encourages funds to re-evaluate whether this disclosure is necessary in light of the Commission's goal to minimize the disclosure of events that have only a remote possibility of affecting an investor's investment in a fund. See Form N-1A Proposing Release, *supra* note 8, at 10913.

¹³⁸ Item 17(a).

¹³⁹ The Investment Company Act requires all fund shares to have equal voting rights and prescribes the vote required for certain significant matters. See, e.g., section 18(i) [15 U.S.C. 80a-18(i)] (equal voting rights); section 15(a) [15 U.S.C. 80a-15(a)] (approval of investment advisory contract); section 16(a) [15 U.S.C. 80a-16(a)] (election of directors); section 13(a) [15 U.S.C. 80a-13(a)] (changes in fundamental investment policies). See also section 2(a)(42) [15 U.S.C. 80a-2(a)(42)] (defining "voting security" and a "vote of a majority of the outstanding voting securities" for purposes of the Investment Company Act); rules 18f-2, 18f-3 [17 CFR 270.18f-2, -3] (specifying certain voting rights with respect to series funds and multiple class funds, respectively).

¹⁴⁰ Item 17(a).

¹⁴¹ Under section 18(f) of the Investment Company Act, a fund generally is prohibited from issuing senior securities. By its terms, however, this prohibition does not preclude a fund from borrowing from any bank, so long as the borrowing is undertaken in accordance with the requirements of the Investment Company Act. See section 18(f)(1) (a fund must have asset coverage of at least 300 percent of all borrowings). In addition, the Commission has taken the position that certain types of portfolio transactions that involve leverage engaged in by a fund would not be deemed senior securities if the fund establishes a segregated account with liquid assets that collateralize 100% of the market value of the obligations under these transactions. See Investment Company Act Release No. 10666 (Apr. 18, 1979) [44 FR 25128]; see also Merrill Lynch Asset Management, L.P. (pub. avail. July 2, 1996) (staff no-action letter). Series funds and multiple class funds, each of which may raise issues under section 18(f), are expressly contemplated by section 18(f)(2) of the Investment Company Act and related rules 18f-2 and 18f-3.

¹⁴² Under the proposal, a fund, however, would be required to disclose information in its prospectus about any series or class of the fund offered in the prospectus. Form N-1A, as amended, adopts this requirement. See, e.g., Item 8(c).

¹⁴³ Form N-1A, as amended, does not require disclosure in the prospectus of any measures taken by a fund (e.g., formation and maintenance of segregated accounts) to ensure that certain instruments that it holds are not deemed senior securities for purposes of the Investment Company Act's limitations. Form N-1A, as amended, would continue to require a fund that has a fundamental policy to borrow monies or that employs leverage to include disclosure about these practices in its prospectus. See *supra* Section II.A.3.a (discussing required disclosure of principal investment strategies).

¹⁴⁴ Item 17(b).

¹⁴⁵ See Form N-1A Proposing Release, *supra* note 8, at 10914.

¹⁴⁶ Item 7. The Commission also is adopting, as proposed, the requirement that a fund disclose in its SAI, and not in its prospectus, information about the fund's principal underwriter and service providers. Item 15. Requiring the information in the SAI does not preclude a fund from including it in the prospectus (e.g., for marketing and other business purposes).

a separate purchase and sale disclosure document as supplemental sales literature.

A second way in which a fund could create a separate purchase and sale disclosure document would be for the fund to include in its SAI the information to be contained in the document. A fund could set out this information in a separate section of the SAI and make it available, as a separate document, to investors upon request. To accommodate this option, the Commission is revising Form N-1A to include an instruction in the SAI that permits a fund to provide a separate document with additional purchase and sale information that can be made available to fund investors, along with the SAI or as a stand-alone document, in response to investor requests.¹⁴⁷

Form N-1A, as amended, provides a third means for developing a purchase and sale manual. As amended, the Form permits a fund to remove all information regarding its purchase and sale procedures from its prospectus and place the information in a separate document. The use of the separate document in this manner, however, would mean that required prospectus disclosure would appear only in the owner's manual. Therefore, the use of this kind of separate document is conditioned on incorporating it by reference into the fund's prospectus and providing it to investors with the prospectus.¹⁴⁸

b. Valuation of Fund Shares and Net Asset Value. Valuation. The Commission proposed to eliminate an existing requirement of Form N-1A that a fund disclose in its prospectus that the price at which investors' purchase and redemption requests are effected is calculated on the basis of the fund's current net asset value and that the fund identify the methods used to value its portfolio securities (e.g., market price or fair value).¹⁴⁹ The Commission proposed to take this action principally because, in meeting the requirement, funds typically go beyond the required identification of the methods used and repeat the substance of rules under the Investment Company Act specifying the way in which the net asset value of a fund must be calculated. In addition, the information presented by a fund

usually repeats information required to be included in the SAI. This disclosure has tended to be lengthy and technical and, as discussed below, appears not to have been very informative for investors.

The Commission has re-evaluated the disclosure of information in fund prospectuses about the calculation of net asset value in light of numerous complaints from investors that the Commission received recently regarding the manner in which some funds determined their net asset value. In response to volatility in various markets, some funds recently valued certain of their securities on the basis of fair value rather than on the basis of the last market quotations for the securities.¹⁵⁰ In taking this action, the funds appear to have relied on a long-standing position of the Commission's staff that a fund may (but is not required to) value portfolio securities traded on a foreign exchange using fair value, rather than the closing price of the securities on the exchange, when an event occurs after the close of the exchange that is likely to have changed the value of the securities.¹⁵¹ Many investors complained that they were unaware that their funds could use fair value pricing in such a situation. In response to these complaints, the Division undertook a review of the disclosure documents of funds using such fair value pricing and found that, although the funds disclosed the practice in their prospectuses, the funds' discussions of their pricing procedures would have been enhanced if they had followed the principles of plain English.¹⁵² Investors' recent

questions about fund pricing procedures confirm the general importance of this information to at least some investors. Thus, the Commission has determined to continue to require that funds identify the methods used to value their assets in their prospectuses.¹⁵³ The Commission is, however, adding an instruction in Form N-1A that will encourage funds to discontinue the use of boilerplate disclosure of the technical aspects of valuation and require them to include a statement about the effect of the fund's use of fair value net asset calculation.

Time and Frequency of Calculation of Net Asset Value. As proposed, Form N-1A would continue to require a fund to state in its prospectus when calculations of its net asset value are made and to indicate that the fund uses a forward pricing procedure contemplating that the price at which a purchase or redemption order is effected is based on the next calculation of net asset value after the order is placed.¹⁵⁴ In addition, the Proposed Amendments would continue to require a fund to disclose those days on which the fund prices its shares and the holidays on which shares would not be priced. Commenters supported these disclosure requirements, and the Commission is adopting them as proposed.¹⁵⁵

Meaning of Net Asset Value. In the Form N-1A Proposing Release, the Commission noted that many funds now define the term "net asset value" in their prospectuses (e.g., net asset value means fund assets minus liabilities divided by the number of outstanding shares).¹⁵⁶ The Commission requested comment whether this disclosure should be required in all fund prospectuses. Commenters on this issue were evenly divided between those who

¹⁵⁰ These funds took this action under circumstances in which stock markets in Asia had closed 13 to 14 hours before the pricing of fund shares in the United States. In that time, several funds identified events that indicated a significant change in the price of securities traded on these markets since the last market quotations. On the basis of this assessment, the funds valued their securities using fair value rather than the market price of the securities. See Barnhart, *Asia Aficionados Found Profit in Times of Turmoil*, Chicago Tribune, Nov. 23, 1997 at C3; Smith, *Funds: A Hidden Trick Investors Should Know About*, Business Week, Nov. 17, 1997 at 41; Authers, *Now The Funds Are Coming Under Fire*, Financial Times, Nov. 8, 1997 at 2; Wyatt, *The Market Turmoil: Funds; Fidelity Invokes Fine Print and Angers Some Customers*, The New York Times, Oct. 31, 1997 at D6; Gasparino, *Pricing System Trips Fidelity, Angers Clients*, Wall Street Journal, Oct. 30, 1997 at C1.

¹⁵¹ See Putnam Growth Fund (pub. avail. Feb. 23, 1981). Fair value pricing in this context is designed to protect the long-term value of fund shares from the actions of short-term investors who might buy or redeem fund shares in an attempt to profit from short-term market movements.

¹⁵² See "Remembering the Past: Mutual Funds and the Lessons of the Wonder Years," Barry P. Barbash, Director, Division of Investment

Management, SEC, at the 1997 ICI Securities Law Procedures Conference, Washington, D.C. (Dec. 4, 1997).

¹⁵³ Item 7(a). An instruction to this Item, as adopted, requires a fund to provide a brief explanation of specific policies of the fund concerning use of the fair value method of pricing fund shares. Form N-1A, as amended, requires a fuller explanation of fair value pricing policies in the SAI. Item 18(c).

¹⁵⁴ Rule 22c-1 under the Investment Company Act [17 CFR 270.22c-1] requires a fund to adopt "forward pricing" procedures. Under such procedures, a fund must fill an order to buy or redeem its shares based on the net asset value of the shares next calculated after receipt of the order.

¹⁵⁵ Item 7(a) (2) and (3). Form N-1A, as amended, allows a fund to identify the days on which the fund will not price its shares through the use of a list of specific days or any other means that effectively communicates the information (e.g., explaining that shares will not be priced on the days on which the New York Stock Exchange is closed for trading).

¹⁵⁶ See Form N-1A Proposing Release, *supra* note 8, at 10914.

¹⁴⁷ Instruction to Item 18(a).

¹⁴⁸ Item 7(f).

¹⁴⁹ Under the Investment Company Act and its rules, funds generally are required to use market quotations to value portfolio securities. If market quotations are not readily available, the fund must value the securities at "fair value as determined in good faith by the board of directors." Section 2(a)(41) [15 U.S.C. 80a-2(a)(41)]; rule 2a-4 [17 CFR 270.2a-4].

believed that the information would be helpful to investors and those who believed the definition of net asset value would not assist investors in making a decision about investing in a fund. While some investors may find information about the meaning of the term net asset value helpful, the Commission is not persuaded that the information is necessary for most investors. Therefore, the Commission is not adopting a requirement that a fund explain the meaning of net asset value in its prospectus. A fund would continue to have the option of including this information in its prospectus or SAI if the fund concluded that such information would be useful to potential investors in the fund.

c. Restrictions on Portability. At the time that the Commission issued the Form N-1A Proposing Release, the Commission's staff was considering a number of complaints received from fund investors about restrictions on the "portability" of their fund shares. To better understand the issues raised by these investors, the staff consulted with, among others, a number of industry trade groups and other industry participants.¹⁵⁷ On the basis of the information compiled by the staff, the Commission understands that, in certain cases, an investor who purchases shares of a fund through a broker-dealer or other financial intermediary may be unable to transfer fund shares held in a brokerage account to an account established at another broker-dealer.¹⁵⁸ In their responses to the staff, industry representatives indicated that the lack of portability of an investor's shares in a fund may be attributed to several factors, including limitations on the transfer of shares sold by broker-dealers affiliated with the investment adviser of the fund, the lack of participation by the fund in a computerized transfer system, and the absence of reciprocal agreements between the fund and broker-dealers. The industry participants, however, supported efforts to increase the portability of fund shares.

The Commission understands that some progress has occurred in

eliminating portability restrictions. To the extent that restrictions continue to exist, however, the Commission believes that disclosure of the limits on portability of a fund's shares may be of importance to a typical investor. The Commission notes that this type of disclosure would seem to address the relationship between a broker-dealer or other intermediary and a fund shareholder, rather than the relationship between the fund and the shareholder. For that reason, the Commission is not convinced that the disclosure should be required in fund prospectuses.¹⁵⁹ The Commission has asked its staff to continue discussions with the staff of the National Association of Securities Dealers, Inc. ("NASD") to consider means other than the prospectus to alert investors who purchase shares of funds through broker-dealers of restrictions on portability.¹⁶⁰

d. Tax Consequences. The Proposed Amendments would revise the tax disclosure required in a fund's prospectus to focus that disclosure on the likely tax consequences to the fund and its shareholders if the fund operates as described in the prospectus. In general, the Proposed Amendments were designed to elicit tax disclosure that is far less complicated than that typically included in fund prospectuses today.¹⁶¹ Commenters strongly agreed with the goal of the proposed provisions relating to prospectus tax disclosure, which the Commission has determined to adopt substantially as proposed. The Commission notes its strong desire that, in revising their documents to comply with Form N-1A, as amended, all funds pay particular attention to simplifying their existing tax disclosures, which the Commission believes are too

complicated and discourage the use of fund prospectuses.

The Commission proposed to move disclosure about a fund's qualification under Subchapter M of the Internal Revenue Code¹⁶² to the SAI, unless the fund does not expect to qualify for Subchapter M treatment. Commenters supported moving this disclosure to the SAI, agreeing that it does not help investors decide whether to invest in a fund. The Commission is adopting this disclosure requirement as proposed.¹⁶³

The Commission proposed to require a description of the tax consequences to shareholders of buying, holding, exchanging, and selling a fund's shares designed to highlight the tax consequences of investing in the fund. The Proposed Amendments would require a fund to state, as applicable, that the fund intends to make distributions to shareholders that may be taxed as ordinary income or capital gains. Under the Proposed Amendments, a fund that expects that its investment objectives or strategies will result in its distributions primarily consisting of ordinary income (or certain short-term capital gains) or long-term capital gains would be required to provide disclosure to that effect.

Commenters generally supported the proposed tax disclosure, and the Commission is adopting it as proposed with one modification to reflect recent changes to the tax laws.¹⁶⁴ In light of these changes, Form N-1A, as amended, requires a fund to disclose that capital gains may be taxable at different rates depending upon the length of time that the fund holds its assets.¹⁶⁵

¹⁶² I.R.C. 851, *et seq.*

¹⁵⁹ Such disclosure would appear to be inconsistent with the fundamental principle underlying Form N-1A that a fund's prospectus should focus on information about the fund.

¹⁶⁰ See discussion *infra* Section II.G about other disclosure issues that the Commission is addressing with the NASD.

¹⁶¹ Existing tax-related prospectus disclosure typically includes lengthy and overly technical information about the tax treatment of a fund, and, in some cases, the treatment of specific securities held by a fund. Many prospectuses, for example, include information about the conditions that a fund must meet to qualify for pass-through tax treatment under Subchapter M of the Internal Revenue Code, as well as information about the tax treatment of private activity bonds, foreign currency contracts, and other fund investments. In addition, tax disclosure frequently includes technical jargon in referring, for example, to a fund's status as a "regulated investment company" and the fund's payment of "spillback distributions" and "net investment income." Use of these terms in fund prospectuses would continue to be discouraged. See General Instruction C.1(c), which would continue to instruct a fund not to use technical or legal terminology in its prospectus.

¹⁶³ Item 19(a), Item 7(e)(3) of Form N-1A, as amended, requires a fund that does not expect to qualify for pass-through tax treatment under Subchapter M to explain in its prospectus the tax consequences of not qualifying (e.g., by disclosing that income and gains realized by the fund would be subject to double taxation—that is, both the fund and shareholders could be subject to tax liability). This disclosure would distinguish the fund from other funds and help investors appreciate the tax consequences of investing in the fund. Similarly, a fund that expects to pay an excise tax under the Internal Revenue Code with respect to its distributions is required to disclose in its prospectus the consequences of paying the tax. See I.R.C. 4982.

¹⁶⁴ Item 7(e). Funds subject to this requirement would include, for example, those often described as "tax-managed," "tax-sensitive," or "tax-advantaged," which have investment strategies to maximize long-term capital gains and minimize ordinary income. A fund that has a principal investment objective or strategy to achieve tax-managed results (e.g., to maximize long-term capital gains and minimize ordinary income) would need to provide disclosure to that effect in its prospectus risk/return summary. Item 4.

¹⁶⁵ Recent changes to the tax laws reduce the maximum rate on the long-term net capital gains on the sale of securities from 28% to 20%, but increase

¹⁵⁷ See Letter from Jack W. Murphy, Associate Director, Division of Investment Management, SEC, to Stuart J. Kaswell, Senior Vice President and General Counsel, Securities Industry Association, Thomas M. Selman, Director, Advertising/Investment Companies Regulation, NASD Regulation, Inc., and Paul Schott Stevens, Senior Vice President and General Counsel, ICI (Dec. 18, 1996).

¹⁵⁸ An investor may seek to transfer such an account, for example, when the registered representative or account executive through which the investor purchased the shares becomes affiliated with a new firm.

The Proposed Amendments would require a fund to state that it will provide each shareholder by a specified date (typically, January 31 of each year) with information about the amount of ordinary income and capital gains, if any, distributed to the shareholder during the prior calendar year. One commenter questioned the need for this requirement, citing that a fund must send this information to investors by a particular date under Internal Revenue Service regulations.¹⁶⁶ The Commission agrees that, in light of these regulations, indicating in a prospectus the date by which a fund will deliver certain tax information is unnecessary. Therefore, Form N-1A, as amended, does not adopt this provision of the Proposed Amendments.

The Proposed Amendments would require a tax-exempt fund to inform investors of the special tax consequences associated with the fund. Commenters supported the proposed disclosure, and the Commission is adopting it substantially as proposed.¹⁶⁷

7. Distribution Arrangements (Item 8)

The Commission proposed changes to Form N-1A to require that all information about a fund's distribution arrangements appear in one section of the fund's prospectus. The Proposed Amendments would require that section to discuss, among other things, sales loads, fees paid under rule 12b-1 plans, and the details of multiple class and master-feeder fund arrangements. The Commission also proposed changes designed to make fund discussions of distribution arrangements less legalistic and more helpful to investors in

evaluating and comparing funds.¹⁶⁸ Commenters generally supported the Commission's conclusion that information about distribution arrangements is particularly important to fund investors, and the Commission is adopting the disclosure requirements relating to those arrangements substantially as proposed.

Rule 12b-1 Plans. The Commission proposed to modify Form N-1A's requirements pertaining to plans designed to meet the requirements of rule 12b-1 under the Investment Company Act to focus prospectus disclosure on the amount of fees paid under the plans and to move detailed, technical disclosure about these plans to the SAI. The Commission proposed to require a fund with a rule 12b-1 plan to state the amount of the fee and to disclose that the plan allows the fund to pay fees for the sale and distribution of its shares. The Commission also proposed an additional requirement designed to result in prospectuses that explain more effectively to shareholders that distribution fees are continuous in nature and that these fees, over time, cumulatively may exceed other types of sales loads.¹⁶⁹ The Proposed Amendments would require a fund to add to its prospectus disclosure to the effect that, because distribution fees are paid out of the fund's assets on an ongoing basis, the fees may, over time, increase the cost of an investment in a fund and cost investors more than other types of sales loads.

Most commenters supported the proposed disclosure concerning rule 12b-1 plans, although some commenters maintained that disclosure of the amount of rule 12b-1 fees merely duplicated information appearing in the prospectus fee table. The Commission believes that disclosing the amount of the rule 12b-1 fee in connection with other disclosure about the nature of the fees will provide a typical investor with a complete and useful picture of the

amounts paid by the fund for distribution. Therefore, the Commission is adopting the disclosure concerning rule 12b-1 fees as proposed.¹⁷⁰

Sales Loads. The Proposed Amendments would continue to require disclosure of the amount of any sales load charged on an investment in a fund and disclosure indicating when a sales load may be reduced or eliminated (e.g., for larger investments). The Commission proposed to move other technical disclosure about sales loads to the SAI, including disclosure about dealer realloances, sales load waivers, and breakpoints applicable to the sale of a fund's shares. The Commission believes that this detailed and technical information tends to obscure information about the amount of sales loads charged by a fund and does not help investors evaluate and compare funds. The Commission also proposed to eliminate disclosure about fees charged by third parties (i.e., banks, broker-dealers, or other persons) in connection with the purchase of a fund's shares.¹⁷¹ Commenters generally supported the proposed approach to disclosure about sales loads, and the Commission is adopting the amendments as proposed.¹⁷²

Multiple Class and Master-Feeder Fund Arrangements. The Commission proposed to combine, in one place in the prospectus, disclosure about the distribution and service arrangements of multiple class and master-feeder funds. Commenters generally supported this treatment of these arrangements, which the Commission is adopting substantially as proposed, with modifications to reflect commenters' suggestions.

The Commission proposed to eliminate the requirement that a feeder fund discuss the possibility and

the asset holding period from 12 months to 18 months (except for sales made after May 6, 1997 and before July 29, 1997, which retain long-term gain status). Taxpayer Relief Act of 1997, Pub. L. 105-34 (1997). The new laws also classify capital assets held for a period of one year, but less than 18 months, as "mid-term" gains, which are subject to a maximum rate of 28%.

¹⁶⁶ The requirement is set forth in I.R.C. 852(b)(3)(c).

¹⁶⁷ Item 7(e)(2). Form N-1A, as amended, requires a fund to disclose, if applicable, that: (i) The fund may invest a portion of its assets in securities that generate income that is not exempt from federal or state income tax; (ii) income exempt from federal income tax may be subject to state and local income tax; and (iii) any capital gains distributed by the fund may be taxable. The Commission also proposed that a fund disclose that a portion of the tax-exempt income that it distributes may be treated as tax preference items for purposes of determining whether the shareholder is subject to the federal alternative minimum tax. Form N-1A, as amended, does not require disclosure about the preference items in the prospectus. This disclosure is technical in nature and applies only in limited circumstances, and would not appear to help a typical investor make a decision about investing in a fund.

¹⁶⁸ Typical fund shareholders appear to regard information about fees paid by funds under various distribution arrangements as important information in making investment decisions. See ICI Shareholder Use Study, *supra* note 52, at 21 (1997) (over 70% of survey respondents considered sales charge and fee information before making their most recent purchase).

¹⁶⁹ The Commission's proposed disclosure would replace similar disclosure required by the rules of the NASD. Rule 2830(d)(4) of the NASD Conduct Rules, *supra* note 37, at 4624 (requiring a fund with a rule 12b-1 plan to disclose adjacent to the fee table that long-term shareholders may pay more than the maximum front-end sales charge allowed by the NASD). In light of the revisions to Form N-1A contemplated by the Proposed Amendments, the NASD has proposed to eliminate its similar disclosure. NASD Notice to Members 97-48, at 393 (Aug. 1997).

¹⁷⁰ Item 8(b); Item 15(g). The Proposed Amendments also would require a fund that pays a service fee outside of a rule 12b-1 plan to disclose the amount and purpose of the fee in the section of its prospectus describing sales loads and rule 12b-1 fees charged by the fund. One commenter questioned the need for this disclosure, asserting that this type of service fee is not appropriately characterized as a distribution fee and would be disclosed in the fee table. The Commission is persuaded that additional disclosure of these fees is unnecessary, and Form N-1A, as amended, does not require prospectus disclosure of them. A fund would disclose service fees paid outside a rule 12b-1 plan in the fee table and in the SAI. Instruction 3(b) to Item 3; Item 20(c).

¹⁷¹ See also Interagency Statement, *supra* note 50; rule 2230 of the NASD Conduct Rules, *supra* note 37, at 4213-14; rule 204-3(a) under the Advisers Act [17 CFR 275.204-3(a)]; Item 1 of Form ADV, Part II [17 CFR 279.1] for fee disclosure requirements applicable to banks, broker-dealers and investment advisers, respectively.

¹⁷² Item 8(a); Item 13(e) (sales load arrangements for affiliated persons); and Item 15(f) (dealer realloances).

consequences of its no longer investing in the master fund. It is the Commission's understanding that distribution arrangements currently used by many funds contemplate feeder funds having the authority to change the master funds in which they are invested. In recognition of this development, the Commission is modifying Form N-1A to require such a feeder fund to describe briefly the circumstances under which it may change its investment in a master fund.¹⁷³

One commenter suggested additional changes to streamline prospectus disclosure about multiple class funds and master-feeder funds. The commenter recommended that the Commission eliminate existing requirements for a fund to disclose information in its prospectus about additional classes or feeders that are not offered in the same prospectus. The commenter also recommended that the Commission modify the proposed disclosure about conversions or exchanges from one class to another to require disclosure only if the conversion or exchange is mandatory or automatic. The Commission agrees that the disclosure about multiple class funds or master-feeder funds in a prospectus should focus on the class or fund offered in that prospectus. Form N-1A, as amended, reflects this position.¹⁷⁴

8. Financial Highlights Information (Item 9)

Condensed Financial Information. The Proposed Amendments would continue to require a fund to include in its prospectus a summary of certain financial information. To provide funds with greater ability to present prospectus disclosure in a format that conveys information effectively to investors, the Proposed Amendments would permit this information to be disclosed anywhere in the prospectus, rather than on a particular page of the prospectus, as currently required. The Commission also proposed changes to the financial highlights table to assist investors in understanding the information contained in it. Commenters supported the Proposed Amendments and endorsed in particular the proposal to permit a fund to choose the location in its prospectus for the financial highlights table. The Commission is adopting revisions to the

financial highlights table requirement substantially as proposed.

In the Form N-1A Proposing Release, the Commission acknowledged that additional changes could improve the financial highlights information and stated that it intended to revisit fund financial disclosure in a separate future rulemaking initiative addressing financial statement requirements generally.¹⁷⁵ For the purposes of its evaluation of the financial highlights information, the Commission requested comment on simplifying and updating this information. This request elicited a number of suggestions ranging from support for the table to recommendations that it be moved to the SAI or eliminated. The Commission will consider these comments as part of its financial statement initiative.

The Commission is, however, adopting some of the commenters' recommendations that would simplify the financial highlights table. One commenter recommended that the Commission change the period covered by the financial highlights table from 10 to 5 years to parallel the period covered by financial information currently required to be in fund annual reports. The Commission has adopted this recommendation¹⁷⁶ because it believes that financial information for a 5-year period will help investors evaluate a fund and, at the same time, respond to concerns that the current table complicates the prospectus and is confusing to investors. Investors interested in historical return information about a fund beyond that contained in the amended financial highlights table can look to the bar chart that the Commission is requiring to be included in prospectuses, which shows the fund's returns over a 10-year period.¹⁷⁷

One commenter urged the Commission to eliminate the requirement that a fund disclose its average commission rates in the financial highlights table, arguing that

these rates are technical information that typical investors are unable to understand. Industry analysts support this view and have informed the Commission staff of their conclusion that the average commission rate information in the table is only of marginal benefit to them and typical fund investors.

At this time, the Commission believes that there continues to be some merit in ensuring that information about the average commission rates paid by funds is publicly available. The Commission believes, however, that a fund prospectus appears not to be the most appropriate document through which to make this information public. Therefore, Form N-1A, as amended, does not require disclosure of average commission rates in the financial highlights table. The Commission will consider adding such a requirement to Form N-SAR, which funds file with the Commission semi-annually to report information on their current operations.¹⁷⁸

Calculation of Performance Data. The Commission proposed to eliminate the Form N-1A requirement that a fund that includes performance information in certain of its advertisements include a brief explanation in its prospectus of how it calculates its performance. This disclosure requirement is intended to facilitate funds using advertisements in accordance with rule 482 under the Securities Act; such an advertisement is an omitting prospectus under section 10(b) of the Securities Act and, as an omitting prospectus, is required to contain information "the substance of which" is contained in the prospectus. Recent legislation added section 24(g) to the Investment Company Act, which authorizes the Commission to adopt rules permitting a fund to use a summary or omitting prospectus that includes information the substance of which is not required to be included in the prospectus.¹⁷⁹ With this new authority, the Commission intends to re-evaluate fund advertising rules with the goal of, among other things, proposing to amend rule 482 to eliminate the "substance of which" requirement.

Consistent with the Proposed Amendments, Form N-1A, as amended, does not require a fund to duplicate in its prospectus the explanation of how it calculates its performance required to appear in the fund's SAI.¹⁸⁰ So long as the SAI is incorporated by reference in

¹⁷³ Item 8(c)(4). A feeder fund that does not have the authority to change its master fund would not need to discuss in its prospectus the possibility and consequences of its no longer investing in the master fund. Instruction to Item 8(c)(4).

¹⁷⁴ Item 8(c).

¹⁷⁵ See Form N-1A Proposing Release, *supra* note 8, at 10918.

¹⁷⁶ Instruction 1(a) to Item 9(a).

¹⁷⁷ Item 2(c)(2). Form N-1A permits a fund to incorporate by reference the financial highlights information into its annual report if it is delivered with the prospectus. Item 9(b). One commenter recommended that the Commission eliminate total return information from the financial highlights table because the bar chart shows a fund's returns. The Commission has not followed this recommendation because returns in the financial highlights table will be reflected for a fund's fiscal year periods, which may not be the same as the calendar year periods reflected in the bar chart. The Commission also notes that including returns in the financial highlights table will enable a fund to satisfy the updating requirements of section 10(a)(3) under the Securities Act.

¹⁷⁸ 17 CFR 274.101. The Division expects to submit recommendations to the Commission on revising Form N-SAR in the near future.

¹⁷⁹ See Improvements Act, *supra* note 118, at section 204.

¹⁸⁰ Item 21.

the prospectus, the rule 482 "substance of which" requirement will be satisfied for this information or any other information that a fund may wish to include in a rule 482 advertisement.

9. Front and Back Cover Pages (Item 1)

The Commission proposed to simplify the disclosure currently required on the front cover page of the prospectus. The Proposed Amendments would require only three items of cover-page disclosure: a fund's name; the date of the prospectus; and the standard Commission disclaimer about the securities offered in the prospectus.¹⁸¹ To unclutter the front cover page and avoid repeating information contained in the proposed risk/return summary at the beginning of the prospectus, the Proposed Amendments would no longer continue to require a fund to include on the front cover a brief statement of the fund's investment objectives, a statement that the prospectus sets forth concise information that the investor should know before investing, and a statement that the prospectus should be retained for future reference.¹⁸² Commenters generally supported the proposed front cover page disclosure requirements, and the Commission is adopting them with revisions reflecting the suggestions of commenters.

Several commenters maintained that the Commission should allow a fund to include certain information on the front cover page of its prospectus, such as its investment objectives or a brief (*e.g.*, one sentence) description of its operations. The Commission agrees, and Form N-1A, as amended, permits, but does not require, a fund to include additional information on the front cover page, subject to the Form's general rule covering the presentation of information not otherwise required to be included in the prospectus.¹⁸³

Several commenters criticized the Commission's standard disclaimer

regarding the securities offered by a prospectus and questioned other disclosure that is required on the front cover page of a fund prospectus.¹⁸⁴ The commenters recommended that the Commission eliminate the legend, maintaining that it is not meaningful to a typical investor and is not essential to such an investor's decision to invest in a fund.

The Commission has not adopted this recommendation because it believes that every prospectus should clearly alert investors that a registration statement filed with and made effective by the Commission does not represent approval by the Commission of the securities described in the prospectus. This view is reflected in the requirement that all issuers filing registration statements under the Securities Act include the disclaimer legend on their prospectuses.¹⁸⁵ The Commission recognizes that the disclaimer used to date is technical in nature and may be difficult to understand. In its recent plain English initiatives, the Commission adopted amendments to simplify the legend, which apply to fund prospectuses.¹⁸⁶

The Commission proposed to consolidate disclosure regarding the availability of additional information about a fund on the back cover page of its prospectus.¹⁸⁷ The Proposed Amendments would require the back cover page to state that the SAI includes additional information about the fund that is available without charge upon request, and to explain how shareholder inquiries regarding the fund can be made. Under the proposal, the back cover page would also include a statement whether and from where information is incorporated by reference into the prospectus. Commenters

generally supported these amendments, and the Commission is adopting the back cover page requirements as proposed, with modifications to reflect commenters' suggestions.¹⁸⁸

To ensure prompt delivery of a requested SAI, the Proposed Amendments would require a fund to send its SAI to requesting investors within 3 business days of a request. Those commenters addressing this requirement generally supported it, although one commenter argued that, to provide funds some leeway in responding to unforeseen circumstances, funds should be subject to a "reasonably prompt" mailing standard, which would be deemed normally to be within 3 days of request. The Commission believes that prompt mailing of the SAI is essential to the disclosure format contemplated by Form N-1A and is adopting the 3-business day mailing requirement as proposed.¹⁸⁹

Several commenters raised concerns about requests for additional information about a fund when the fund's shares are sold through financial intermediaries, such as broker-dealers or banks. Commenters recommended that Form N-1A permit funds to indicate in their prospectuses that investors may contact an intermediary to obtain the SAI and other additional information. The Commission acknowledges that many funds use intermediaries in distributing or servicing their shares and that investors may look to these intermediaries for information about the funds. Thus, the Commission has revised Form N-1A to permit a fund to state on the back cover of its prospectus that additional information about the fund is available from a financial intermediary.¹⁹⁰ The Commission notes, however, that such a fund retains the obligation to ensure that information is sent to investors within 3 business days of an investor request. The Commission expects that funds will fulfill this obligation through contractual

¹⁸¹ This disclaimer is required by rule 481(b)(1) under the Securities Act [17 CFR 230.481(b)(1)].

¹⁸² See Form N-1A Proposing Release, *supra* note 8. See also SEC, Report of the Task Force on Disclosure Simplification (1996) (recommending that many legal warnings be eliminated to make the cover page more inviting and that any necessary legal warnings be set out in a more readable style and format); Plain English Release, *supra* note 20, at 6372.

¹⁸³ Instruction to Item 1(a); see also General Instruction C.3(b). Form N-1A currently requires special disclosure on the front cover page of a feeder fund prospectus describing the master-feeder fund structure and explaining how it differs from a traditional mutual fund. 1993 GCL, *supra* note 25, at II.H(a). Consistent with simplifying cover page disclosure, Form N-1A, as amended, does not require this disclosure on the front cover page, but does require disclosure about a fund's master-feeder structure in the body of the fund's prospectus in response to Item 8(c).

¹⁸⁴ Rule 481(b)(1) (requiring disclosure that indicates that neither the Commission nor any state securities commission has approved the securities or passed on the adequacy of disclosure in the prospectus).

¹⁸⁵ Item 501 of Regulation S-K [17 CFR 229.501].

¹⁸⁶ See Plain English Release, *supra* note 20, at 6372 (revising Item 501(b) of Regulation S-K and making conforming changes to rule 481(b)(1)).

¹⁸⁷ The Proposed Amendments also would require a fund to include on the back cover page of its prospectus a statement that information about the fund is available at the Commission's Public Reference Room and on the Commission's Internet site. Some commenters questioned this proposal, asserting that the information is not essential to making a decision to invest in a fund and would clutter the back page of prospectuses. The Commission is not persuaded by these arguments and has adopted this requirement as proposed. Item 1(b)(3). The Commission notes that the requirement is consistent with those imposed on all registrants filing registration statements under the Securities Act and reflects recent changes adopted in the Plain English Release, *supra* note 20, at 6381 (amending Item 101(e)(2) of Regulation S-K under the Securities Act [17 CFR 229.101(e)(2)]).

¹⁸⁸ Item 1(b). The Commission proposed to require disclosure in a fund's discussion of risk in the prospectus risk/return summary that additional information about a fund's investments is available in the fund's shareholder reports. In response to commenters' suggestions, the Commission is requiring that this disclosure be made on the back cover page of a fund's prospectus together with other references to the availability of additional information about the fund. Item 1(b)(1). See *supra* Section II.A.1.

¹⁸⁹ Instruction 3 to Item 1(b)(1). The Commission's Office of Compliance Inspections and Examinations will, as a part of its routine periodic inspections of a fund's operations, examine the fund's compliance with the 3-business day mailing requirement. Failure to comply with the requirement could result in action by the Commission to ensure compliance, including an enforcement action in an appropriate case.

¹⁹⁰ Instruction 2 to Item 1(b)(1).

arrangements with broker-dealers, banks, or other financial intermediaries.

Some commenters had suggestions about certain technical disclosure information that the Commission proposed to include on the back cover page of the prospectus. The Proposed Amendments, for example, would move the requirement to disclose the date of the SAI to the back cover page of the prospectus. Several commenters criticized this requirement, asserting that the date of the SAI is not essential to an investor's decision to invest in a fund and that requiring the SAI date on the back cover of a prospectus would necessitate the reprinting of prospectuses of funds that share a common SAI whenever a new fund is added to the group covered by the SAI. In light of these comments and the obligation imposed on funds to send investors who request an SAI the most current version of the document, the Commission has deleted from Form N-1A, as amended, the requirement to show the date of a fund's SAI on the back cover of the fund's prospectus.¹⁹¹

B. Part B—Statement of Additional Information

The Commission proposed a number of technical and conforming revisions to the SAI disclosure requirements to reflect the proposed changes in the prospectus disclosure requirements. The Commission is adopting these revisions as proposed. As discussed in the Form N-1A Proposing Release, the Commission intends to consider the SAI requirements as part of a future initiative and propose amendments to simplify and update SAI disclosure following the same disclosure principles underlying the revisions to Form N-1A being adopted today.

C. Part C—Other Information

The Commission proposed amendments to Part C of Form N-1A to eliminate certain filing requirements no longer deemed necessary. Commenters supported the proposed amendments, and the Commission is adopting them as proposed with certain modifications to

reflect the suggestions of commenters.¹⁹²

The Proposed Amendments would continue to require newly organized funds to file updated financial statements within 4 to 6 months of the effective date of the registration statement. The Commission asked for comment whether the requirement should be retained. All commenters responding to the request said that the Commission should eliminate this requirement. Commenters argued that the information is of little value to investors in a new fund because it covers a fund's operations for a short start-up period that does not usually reflect the fund's expected operations. Commenters also argued that the cost of providing this information places a heavy burden on new funds, which typically have smaller amounts of assets under management than larger funds. According to the commenters, these costs can have a significant and disproportionate effect on a small fund's expense ratio.

The Commission believes that financial statements for the initial operations of a fund may not provide information that is significant to a typical fund investor. In addition, an investor interested in financial information about a fund's initial operations can obtain the information by requesting the fund's most recent shareholder report, which is generally available 6 to 8 months after the fund commences operations and begins selling shares to investors. For these reasons, the Commission has concluded that the costs associated with the 4 to 6 month update are not outweighed by the benefits that the information may provide to some investors. Therefore, Form N-1A, as amended, does not require the filing of updated financial statements for a newly organized fund.

¹⁹² Form N-1A, as amended, does not require the filing of (i) model retirement plans that are used to offer fund shares; (ii) schedules showing the calculation of performance information; and (iii) voting trust agreements. One commenter suggested additional changes to the Part C requirements, asserting that much of the information in this part of the registration statement does not serve any important purpose and imposes administrative burdens on funds. The commenter recommended, among other things, that the Commission no longer require a fund to include a table showing the number of holders of each class of a fund's shares in its registration statement. In support of its recommendation, the commenter pointed out that this information is required to be filed by funds on their Forms N-SAR. The Commission is persuaded by this argument and has amended Form N-1A to delete the requirement that a fund's registration statement include a table of holders of fund shares.

D. General Instructions

1. Reorganizing and Simplifying the Instructions

The General Instructions to Form N-1A currently provide guidance on the use and content of the Form. The Proposed Amendments were intended to update and reorganize the General Instructions to make the Instructions easier to use. Commenters generally supported these revisions, which the Commission is adopting substantially as proposed. As adopted, the General Instructions consist of the following topics: (A) Definitions; (B) Filing and Use of Form N-1A; (C) Preparation of the Registration Statement; and (D) Incorporation by Reference.

The Proposed Amendments added several definitions to standardize certain terms as used in Form N-1A. Under the proposal, the term "Fund" would be defined as a registrant or a series of the registrant. The Proposed Amendments also included definitions of the terms "Registrant" and "Series" as used in Form N-1A. The Commission is adopting all three definitions as proposed.¹⁹³

Proposed General Instruction B incorporated a more user-friendly, question-and-answer format regarding the filing and use of Form N-1A and replaced current Instructions A through D and F. The Commission is adopting General Instruction B as proposed.

General Instruction C to Form N-1A, as proposed, would set out the requirements for preparing the registration statement in an understandable format and would replace existing Instruction G to the Form. As proposed, the new Instruction emphasized the need to provide clear and concise prospectus disclosure and permitted a fund to include in its prospectus or SAI information not otherwise required by Form N-1A, so long as the information is not misleading and does not, because of its nature, quantity, or manner of presentation, obscure the information required to be included.¹⁹⁴ The Commission is adopting Instruction C substantially as proposed.¹⁹⁵

¹⁹³ See General Instruction A.

¹⁹⁴ See Form N-1A Proposing Release, *supra* note 8, at 10918.

¹⁹⁵ The Commission is deleting other instructions to the current Form N-1A, which permit information to be added to the prospectus and SAI. See, e.g., Item 1(b) of the current Form N-1A (permitting other information to be included on the cover page of the prospectus). Instruction C of Form N-1A, as amended, provides this guidance for purposes of all fund disclosure. The Commission also is deleting specific Instructions in current Part A that call for brief and concise prospectus disclosure, because Instruction C includes this

¹⁹¹ To enable the Commission's staff to respond efficiently to investor inquiries, the Proposed Amendments would require a fund to disclose the fund's name, Commission file number and, if the fund is a series of a registrant, the registrant's name on the back cover page. Some commenters maintained that the information presented in meeting this requirement could be confusing to investors and is not relevant to a typical investor in considering whether to invest in a fund. The Commission is modifying the requirement so that a fund will only need to disclose its Commission file number in small print (e.g., 8-point modern type) at the bottom of the back cover page of its prospectus. Item 1(b)(4).

2. Plain English Disclosure

The Commission is adopting amendments to General Instruction C clarifying that funds must comply with rule 421 under the Securities Act, which sets out the Commission's recently adopted plain English requirements.¹⁹⁶ Rule 421(b) sets out general requirements that the entire prospectus be clear, concise, and understandable and provides guidance on how to draft prospectuses that meet this standard.

Under Form N-1A, as amended, a fund would need to draft the front and back cover pages and the risk/return summary of a fund prospectus in accordance with the provisions of rule 421(d).¹⁹⁷ In meeting these requirements, a fund will need to use plain English principles in the organization, language, and design of these sections of their prospectuses. Funds also will comply substantially with the following six principles of clear writing:

- Short sentences;
- Definite, concrete, everyday language;
- Active voice;
- Tabular presentation or bullet lists for complex material, wherever possible;
- No legal jargon or highly technical business terms; and
- No multiple negatives.

The compliance dates for rule 421(d) and Form N-1A, as amended, will be the same. Therefore, when a fund files a new or amended registration statement in order to comply with Form N-1A, as amended, it must also comply with the plain English rule.¹⁹⁸

3. Disclosure Guidelines

The Commission has revised General Instruction C to reflect clearly the basic disclosure principles underlying the Commission's initiatives being adopted today. The Commission believes that

requirement for purposes of all prospectus disclosure.

¹⁹⁶ General Instruction C.1(e).

¹⁹⁷ Items 1(a) (Front Cover Page), 1(b) (Back Cover Page), 2 (Risk/Return Summary: Investments, Risks, and Performance), and 3 (Risk/Return Summary: Fee Table).

¹⁹⁸ See *infra* Section II.H for a discussion of the effective and compliance dates for Form N-1A, as amended. The compliance date for investment companies other than funds is October 1, 1998. See Plain English Release, *supra* note 20, at 6370. Unit investment trusts and closed-end investment companies must comply with the plain English rule only for new registration statements. Variable annuity issuers filing on Forms N-3 and N-4, and variable life insurance issuers filing on Forms N-8B-2 and S-6 must comply with rule 421(d) for new and updated registration statements. The Commission also has proposed new Form N-6 for variable life insurance issuers that incorporates the Commission's plain English requirements. Investment Company Act Release No. 23066 (Mar. 13, 1998).

applying these principles consistently in developing fund disclosure documents will result in high quality documents that effectively communicate information to investors.

General Instruction C, as amended, includes a set of drafting guidelines that are designed to improve prospectus disclosure. The Instruction encourages funds to avoid cross-references in their prospectuses to their SAIs or shareholder reports. Repeated cross-references to the SAI and shareholder reports can add unnecessary length and complexity to fund prospectuses and often preclude prospectuses from disclosing information effectively to investors.

General Instruction C provides guidance on the use of Form N-1A by more than one fund and by a multiple class fund. Fund prospectuses frequently contain information for multiple series and classes that offer investors different investment alternatives and distribution arrangements. When information in them is presented clearly, prospectuses offering more than one fund may make it easier for investors to compare funds and may be more efficient for funds and investors by eliminating the need to provide investors with multiple prospectuses containing repetitive information. Instruction C generally enables a fund to organize information about multiple funds and classes in a format of its choice that is consistent with the goal of communicating information to investors effectively.¹⁹⁹

4. Modified Prospectuses for Certain Funds

Proposed Instruction C would permit a fund that is offered as an investment alternative in a participant-directed defined contribution plan to modify its prospectus for use by participants in the plan. Under the Proposed Amendments, a prospectus used to offer fund shares to plan participants could omit certain information required by proposed Items 7 (shareholder information) and 8 (distribution arrangements). This prospectus disclosure would largely be irrelevant to plan participants;

¹⁹⁹ General Instruction C.3(c). A fund, for example, may decide that using a horizontal rather than vertical presentation for the fee table would present the required fee information most effectively. A fund may find that using different formats in its prospectus risk/return summary would communicate the required information effectively. Depending on the number and type of funds offered in the prospectus, for example, a fund may find it useful to group the required information for all funds together under each caption or to present the information sequentially for each fund. See John Hancock Funds, Inc. (pub. avail. June 28, 1996) (using a two-page disclosure format for each of 7 funds offered in a single prospectus).

investments that can be made by participants, and the distributions participants receive (including the tax consequences of distributions), are governed by statutory requirements and by the terms of individual plans.²⁰⁰ Commenters generally supported permitting prospectuses to be modified for plan participants, asserting that it would allow funds to provide meaningful disclosure specifically designed for plan participants who invest in funds. The Commission is adopting the provisions in Instruction C relating to prospectuses for plan participants with modifications to reflect suggestions of commenters.

Instruction C, as proposed, would permit funds to tailor disclosure for prospectuses to be used for investments in defined contribution plans qualified under the Internal Revenue Code. One commenter suggested that the Commission permit funds that serve as investment options for variable insurance contracts to use modified prospectuses that set out purchase and sale procedures, distributions, and tax consequences applicable to these funds. In response to the commenter's suggestions, the Commission is permitting prospectuses to be tailored for funds offered through variable insurance contracts in furthering its goal of providing investors with more useful disclosure documents.²⁰¹

5. Incorporation By Reference

Proposed General Instruction D would replace an existing instruction to Form N-1A that addresses incorporation by reference in a fund's prospectus of information in the fund's SAI. When the Commission adopted the two-part disclosure format for Form N-1A, the Commission intended that Part A of the registration statement provide investors with a simplified prospectus that, standing alone, would meet the requirements of section 10(a) of the Securities Act.²⁰² Part B, the SAI (which is available to investors upon request), includes additional information that the Commission has determined may be useful to some investors and should be available to all investors, but is not necessary in the public interest or for the protection of investors to be in the

²⁰⁰ In addition to plans under rule 401(k) of the Internal Revenue Code [26 U.S.C. 401(k)], these plans include those under section 403(b) [26 U.S.C. 403(b)] (available to employees of certain tax-exempt organizations and public educational systems) and section 457 [26 U.S.C. 457] (available to employees of state and local governments and other tax-exempt employers).

²⁰¹ General Instruction C.3(d).

²⁰² 1983 Form N-1A Adopting Release, *supra* note 12, at 37930.

prospectus.²⁰³ Form N-1A currently permits, but does not require, a fund to incorporate the SAI by reference into the prospectus. The two-part disclosure format has been widely used by funds, and the Commission has found that the current approach to incorporation by reference is consistent with the intended purpose of Form N-1A and should be retained.²⁰⁴

Proposed Instruction D would continue to permit, but not require, a fund to incorporate the SAI by reference into the prospectus. Commenters supported this approach to incorporation by reference, and the Commission is adopting Instruction D substantially as proposed.²⁰⁵ The revised Instruction clarifies that incorporating information by reference from the SAI is not permitted as a response to an item of Form N-1A requiring information to be included in the prospectus. Permitting the SAI to be incorporated by reference into the prospectus was meant to allow funds to add material that the Commission determined not to require in the prospectus, not to permit funds to delete required information from the prospectus and place it in the SAI. Form N-1A, as amended, provides funds with clearer directions for allocating disclosure between the prospectus and the SAI. Funds can discuss items of information required to appear in the prospectus in greater detail in the SAI, which may be incorporated by reference into the prospectus.

The Commission notes that section 19(a) of the Securities Act²⁰⁶ and section 38(c) of the Investment

Company Act²⁰⁷ protect a fund from liability under these Acts for actions taken in good faith in conformity with any rule of the Commission. The amendments to Form N-1A are designed to provide better guidance to funds as to what information should be in the prospectus and the SAI to assist funds seeking to act in good faith in conformity with Form N-1A.²⁰⁸

6. Form N-1A Guidelines and Related Staff Positions

The Guidelines to current Form N-1A (the "Guides") were prepared by the Division and published by the Commission when it adopted the Form in 1983.²⁰⁹ The Guides, which generally restate Division positions that may affect fund disclosure, were intended to assist funds in preparing and filing their registration statements. Additional Division positions on disclosure matters have been included from time to time in Generic Comment Letters prepared by the Division ("GCLs").²¹⁰

Although certain Guides have been revised and new ones added in connection with the adoption of various rules, the Guides collectively have not been reviewed since 1983. Certain Division positions in the Guides and GCLs have become outdated.²¹¹ Other Guides and GCLs explain or restate legal requirements and may encourage generic disclosure about fund operations that does not appear to help investors evaluate and compare funds.²¹² In addition, the presentation of information in 35 Guides and 7 GCLs

is not organized in the most useful or effective manner.

To address these issues, Form N-1A, as amended, incorporates certain disclosure requirements from the Guides and GCLs. Other disclosure requirements in the Guides and the GCLs have not been incorporated in Form N-1A because, among other things, they are outdated or result in disclosure about technical, legal, and operational matters generally common to all funds. In addition, Form N-1A does not incorporate certain requirements calling for specific disclosure about certain types of fund investments because these requirements have tended to standardize disclosure about certain securities without regard to how a particular fund intends to use the securities in achieving its investment objectives. Generalized disclosure of this sort is inconsistent with the goal of the amendments to prospectus disclosure being adopted today to provide investors with information about how a particular fund's portfolio will be managed and elicit disclosure tailored to a fund's particular investment objectives and strategies.²¹³

Information in the Guides and GCLs about legal requirements (including information about fund organization and operations), interpretive positions, and descriptions of filing procedures will be updated and reorganized in a new Investment Company Registration Guide ("Registration Guide").²¹⁴ The Commission has instructed the Division to make the Registration Guide available as soon as practicable. While the Commission believes that the Registration Guide will be a useful tool for funds in preparing their filings, Form N-1A, as amended, includes all of the requirements necessary for funds to prepare new or amend existing registration statements.²¹⁵

²¹³ See *supra* Section II.A.3.

²¹⁴ The Guides have not been republished with Form N-1A, as amended. Neither the Guides nor the GCLs will apply to registration statements prepared on the amended Form. The Commission also is rescinding the Guides Releases, *supra* note 209.

²¹⁵ The Registration Guide will address topics discussed in the GCLs relating to closed-end investment companies and unit investment trusts, and other matters not relevant to Form N-1A (e.g., proxy disclosure). Information traditionally addressed in the GCLs will be considered when the Registration Guide is updated, unless the nature of the information warrants immediate dissemination. The Registration Guide will serve as a "small entity compliance guide," which the Commission is required to publish under the Small Business Regulatory Enforcement Fairness Act (5 U.S.C.S. 601 note (Supp. July 1996)).

²⁰⁷ 15 U.S.C. 80a-38(c).

²⁰⁸ See 1983 Form N-1A Adopting Release, *supra* note 12, at 37930.

²⁰⁹ 1983 Form N-1A Adopting Release, *supra* note 12, at 37938 (stating that publication of the Guides was not intended to elevate their status beyond that of staff guidance). The Commission initially adopted guidelines in 1972 to assist funds in preparing and filing registration statements. Investment Company Act Release Nos. 7220, 7221 (June 9, 1972) [37 FR 12790] ("Guides Releases").

²¹⁰ See 1993 GCL and 1994 GCL, *supra* note 25.

²¹¹ See, e.g., Guide 9 (Short Sales) (a new interpretive position of the Commission's staff as to limits under the Investment Company Act on short sales entered into by funds was set out in Robertson Stephens Investment Trust (pub. avail. Aug. 24, 1995)); Guide 30 (Tax Consequences) (each series is now treated as a separate entity for tax purposes and may not, as suggested by the Guide, offset gains of one series against losses of another); 1990 GCL, *supra* note 25, at I.B (undertakings); 1991 GCL, *supra* note 25, at II.A.2 (country, international, and global funds); and 1992 GCL, *supra* note 25, at II.F (segregated accounts).

²¹² See, e.g., Guides 8 (Senior Securities, Reverse Repurchase Agreements, Firm Commitment Agreements and Standby Commitment Agreements), 9 (Short Sales), 15 (Qualification for Treatment Under Subchapter M of the Internal Revenue Code), and 28 (Valuation of Securities Being Offered); 1994 GCL, *supra* note 25, at III.C (redemption fees); and 1995 GCL, *supra* note 25, at II.A (MDFP disclosure).

²⁰³ *Id.* See *White v. Melton*, 757 F. Supp. 267 (S.D.N.Y. 1991) (citing the 1983 Form N-1A Adopting Release, *supra* note 12, as authority for the principle that certain matters are required to appear in the prospectus and that others may be appropriately disclosed in the SAI, which may be incorporated by reference into the prospectus).

²⁰⁴ See Form N-1A Proposing Release, *supra* note 8, at 10920 (citing the 1982 Form N-1A Proposing Release as suggesting that prohibiting incorporation by reference of the SAI into the prospectus or, alternatively, requiring delivery of the SAI with the prospectus, would "vitalize the Commission's attempt to provide shorter, simpler prospectuses").

²⁰⁵ General Instruction D, as adopted, includes technical revisions to simplify its requirements. The specific instruction regarding incorporation by reference of condensed financial information from reports to shareholders in existing General Instruction E has been incorporated in Item 9 of Form N-1A, as amended (financial highlights table). The existing instruction allowing incorporation of financial information in response to Item 23 of Form N-1A from reports to shareholders has been deleted as unnecessary because the Form does not limit incorporation of information into the SAI. The requirement that a shareholder report incorporated by reference into the SAI be delivered with the SAI has been added in Item 10(a)(iv).

²⁰⁶ 15 U.S.C. 77q(a).

E. Technical Rule Amendments

When it proposed to amend Form N-1A, the Commission proposed several technical rule amendments. These rule amendments generally were intended to implement the recommendations of the Commission's Task Force on Disclosure Simplification that apply to funds.²¹⁶ The Commission is adopting these amendments substantially as proposed.²¹⁷ The Commission also is adopting conforming amendments to several rules and a form to correct references to items in Form N-1A that have been redesignated or reorganized in Form N-1A, as amended.²¹⁸

F. Administration of Form N-1A

While generally praising the Proposed Amendments and their goals, some commenters voiced concern that, unless administered appropriately, Form N-1A, as amended, would not lead to more useful and understandable disclosure documents for fund investors. Some commenters argued that, over time, the Commission's staff has interpreted Form N-1A's existing requirements so narrowly as to prevent funds from adopting formats in which information could be effectively communicated to investors. Other commenters asserted that the Commission's staff, in interpreting the provisions of existing Form N-1A, has consistently required lengthy and complex disclosure that may discourage investors from reading fund prospectuses.²¹⁹

The Commission acknowledges that some interpretations relating to Form N-1A disclosure taken by the staff in the past have contributed to fund prospectuses becoming dense and less inviting to read by shareholders.²²⁰ The

Commission believes, however, that funds, their counsels and other advisors also have contributed to this result. In seeking to minimize potential liabilities under the federal securities laws, many funds appear to have made the use of clear formats and concise and understandable language in fund prospectuses only a secondary concern, at best. Funds also appear to have added material to their prospectuses not otherwise required by Form N-1A to facilitate marketing or other business objectives.

The Commission firmly believes that achieving the goals underlying the amendments to Form N-1A being adopted today necessitates discipline on the part of the Commission and its staff, as well as on the part of funds and their advisors. In exercising discipline, all parties involved in the disclosure process should look not only to the Form N-1A disclosure requirements, as amended, but also to the disclosure principles reflected in the Form. The Commission has instructed its staff to adhere to those principles closely when providing comments on registration statements filed on Form N-1A and in interpreting provisions of the Form.²²¹ The Commission strongly encourages funds and their advisors to follow closely the principles in drafting language and designing formats for use in fund prospectuses.

Throughout the period during which the Form N-1A and profile initiatives were developed, the Commission staff worked with numerous fund groups to create innovative disclosure materials and new and improved prospectuses.²²² The results of these efforts have been commended by many as achieving a significant improvement over existing disclosure documents.²²³ Many of the

efforts were furthered by the willingness of the staff to interpret Commission disclosure requirements in a manner consistent with the goal of enabling funds to communicate more effectively to investors information essential in considering an investment in a fund.²²⁴ The Commission's staff will continue to exercise this approach in interpreting the provisions of Form N-1A, as amended, and in reviewing fund filings under the revised disclosure requirements.²²⁵

G. Coordination With the NASD

As discussed in the Form N-1A Proposing Release, some rules of the NASD restrict the ability of NASD members to engage in various activities relating to funds unless certain disclosures are made in fund prospectuses.²²⁶ NASD Conduct Rule 2830, for example, generally does not allow underwriters to pay compensation to broker-dealers for selling shares of a fund, unless the compensation arrangements are disclosed in the fund's prospectus.²²⁷ Certain commenters

John Hancock's new prospectus); McTague, *Simply Beautiful: Shorn of Legalese, Even Prospectuses Make Sense*, Barron's, Oct. 7, 1996, at F10 (concerning the recent efforts of the John Hancock funds and other fund groups to simplify their prospectuses); Morcau, *Prospectuses are Getting Easier to Read*, Investor's Business Daily, Dec. 15, 1997, at B1 (noting improvements in the prospectuses from Vanguard, State Street, Dreyfus, and other fund groups); Williamson, *State Street Launches Redesigned Prospectus, Pensions & Investments*, Dec. 8, 1997, at 36 (commenting on State Street's simplified and redesigned prospectus); Zweig, *Our 1997 Mutual Fund Awards: Picks, Pans and Some Tips Too*, Money, Vol. 26, No. 13, 1997, at 35 (commending USAA and State Street for producing prospectuses in clear, simple English).

²²⁴ See John Hancock Funds, Inc., *supra* note 199; see also 1997 Profile Letter, 1996 Profile Letter, and 1995 Profile Letter, *supra* note 16; National Association for Variable Annuities (pub. avail. June 4, 1996); Fidelity Institutional Retirement Services Company, Inc. (pub. avail. Apr. 5, 1995).

²²⁵ The Commission recognizes that, in interpreting these provisions, the staff will have to balance the goal of furthering the effective communication of information to investors with the goal of presenting prospectuses in formats designed to permit investors to compare the operations of one fund to those of other funds.

²²⁶ See Form N-1A Proposing Release, *supra* note 8, at 10916-17.

²²⁷ See, e.g., rule 2830(j)(1)(C) of the NASD Conduct Rules, *supra* note 37, at 4627 (prohibiting the offer, payment, or arrangement of "concessions" in connection with retail sales of investment company securities unless the arrangement is disclosed in the investment company's prospectus). The NASD has proposed to eliminate the provision in Conduct Rule 2830 that necessitates prospectus disclosure concerning these non-cash arrangements. See Securities Exchange Act Release No. 38993 (Sept. 5, 1997) [62 FR 47080]. Moreover, the NASD staff has assured the Commission's staff that the NASD staff will reconsider the appropriateness of requiring prospectus disclosure concerning cash compensation, in light of the Commission's Form

²¹⁶ SEC, Report of the Task Force on Disclosure Simplification (1996).

²¹⁷ The Commission is amending rules 495 and 497 [17 CFR 230.495 and .497] to eliminate their cross-reference sheet requirements. The Commission also is amending rule 8b-11 [17 CFR 270.8b-11] to modify signature requirements to provide more flexibility for issuers filing on paper. The Commission adopted amendments to rule 481, which is applicable to funds, in the Plain English Release, *supra* note 20.

²¹⁸ See amendments to rules 483, 485, 304, 14a-101 [17 CFR 230.483, .485, 232.304, 240.14a-101] and Form N-14 [referenced in 17 CFR 239.23].

²¹⁹ Several commenters referred to this aspect of staff disclosure interpretations as resulting in "disclosure creep." According to these commenters, the disclosure that proved problematic typically related to complex instruments in which some funds invested such as options, futures, and junk bonds. The commenters said that, in response to difficulties experienced by funds investing in these instruments, the staff often required all funds holding these instruments to amend their prospectuses to add lengthy and overly technical discussions of the instruments.

²²⁰ See Levitt Article, *supra* note 5, at 37 ("We recognize that we share responsibility for the state

of the modern prospectus. Our passion for full disclosure has resulted in fact-bloated reports, and prospectuses that are more redundant than revealing.").

²²¹ The Commission has also generally instructed the staff to avoid as much as possible using disclosure requirements as a means of regulating the conduct of funds, which are subject to extensive substantive regulation under the Investment Company Act.

²²² See, e.g., Levitt Article, *supra* note 5 (discussing various Commission initiatives to work with mutual funds and other corporate issuers to improve prospectus disclosure); Connors, *Mutual Fund Prospectus Simplification: The Time Has Come*, *The Investment Lawyer*, Vol. 3, No. 8, Aug. 1997, at 14 (describing the Commission's role in the development of the simplified John Hancock prospectus).

²²³ See, e.g., Dow Jones Newswires, *State Street Rewrites Prospectuses to Help Ease Investors' Task*, *The Wall Street Journal*, Nov. 14, 1997, at 1B (commenting on State Street's new plain English prospectus); Kelley, *John Hancock Builds a Better Mousetrap*, *Morningstar Mutual Funds*, Sept. 13, 1996, at 52 (commenting on the improvements in

expressed concern that these and other NASD prospectus disclosure requirements appear to be inconsistent with the Commission's broad initiatives to improve fund disclosure, and encouraged the Commission to coordinate its regulatory efforts with the NASD.

The Commission believes that it is of the utmost importance that all disclosure contained in fund prospectuses conforms to the principles of effective communication reflected in Form N-1A, as amended. The Commission has discussed these principles with the NASD staff, which has agreed to evaluate all of the NASD's existing requirements for consistency with these principles and to propose to the Commission that those rules be changed as necessary to achieve greater consistency. In addition, to the extent that it imposes prospectus disclosure requirements in the future, the NASD will seek to do so in accordance with the Commission's disclosure principles.²²⁸

H. Effective Dates and Transition Period

As discussed in the Form N-1A Proposing Release,²²⁹ the Commission is providing for a transition period after the effective date of the amendments to Form N-1A that gives funds sufficient time to update their prospectuses or to prepare new registration statements under the revised Form N-1A requirements. All new registration statements or post-effective amendments that are annual updates to effective registration statements filed on or after December 1, 1998 must comply with the amendments to Form N-1A.²³⁰ The final compliance date for filing amendments to effective registration statements to conform with the new Form N-1A requirements is December 1, 1999. The same compliance dates apply to the new plain English disclosure requirements for fund prospectuses. A fund may, at its option, prepare documents in accordance with the requirements of Form N-1A, as

N-1A initiatives. *Id.* at 47086. In addition, the NASD has proposed to eliminate certain prospectus disclosure concerning the effects of asset-based sales charges. See *supra* note 169.

²²⁸ The Commission also encourages the NASD to follow as much as possible the disclosure principles underlying the Form N-1A in considering and proposing disclosure requirements under NASD rules that apply to fund advertisements.

²²⁹ See Form N-1A Proposing Release, *supra* note 8, at 10921.

²³⁰ To simplify compliance with the revised prospectus disclosure requirements, the Commission is specifying the effective date as June 1, 1998.

amended, at any time after the effective date of the amendments.

III. Cost/Benefit Analysis and Effects on Competition, Efficiency, and Capital Formation

Section 2(c) of the Investment Company Act provides that whenever the Commission engages in rulemaking requiring the Commission to consider whether its action is in the public interest, the Commission also must consider whether the action will promote efficiency, competition, and capital formation.²³¹ For the reasons stated in the cost/benefit analysis below, as well as the reasons discussed elsewhere in this release, the Commission has concluded that the amendments to Form N-1A protect investors and promote efficiency, competition, and capital formation.

The central goal of the amendments to Form N-1A is to promote fund disclosure documents that effectively communicate essential information to investors. The amendments seek to meet this goal by focusing prospectus disclosure on information that will help investors decide whether to invest in a fund. The amendments seek to organize the prospectus in a more efficient manner, which increases the effectiveness of the information in the prospectus. For example, the amendments minimize required disclosure in a fund's prospectus about matters that generally are common to all funds and focus the disclosure on matters about the fund. Changes such as the addition to Form N-1A of a standardized risk/return summary also allow investors to use prospectus information efficiently to compare one fund to others before investing. Well-informed investors may invest more of their resources and allocate their investments carefully, which in turn would tend to promote competition among funds.

The Commission did not receive any comments addressing the costs associated with the amendments to Form N-1A. While it is difficult to quantify costs and benefits related to Form N-1A, the Commission notes that commenters strongly favored the amendments. As discussed in the Commission's Paperwork Reduction Act submission in conjunction with the Form N-1A Proposing Release, the Commission estimated that there are approximately 7,500 registrants on Form N-1A. The total annual cost to the industry of preparing, filing, and updating current Form N-1A is

approximately \$175 million.²³² The Commission does not believe that these amendments will result in a significant cost increase over time because the amendments do not require that funds disclose a significant amount of new information. Rather than increase the reporting burden, the amendments primarily clarify instructions, reorganize the prospectus, and require new formats for certain information.

The Commission's estimate of the total annual cost to the industry identified above reflects the burden of initial Form N-1A filings, which the Commission has sought to minimize. It is likely that an initial expense from the revisions would be offset by future savings such as lower printing and distribution costs from a shorter prospectus. For example, the amendments eliminate the requirement that newly organized funds file updated financial statements within 4 to 6 months after the effective date of the registration statement. The costs of filing these updated financial statements may have a disproportionate effect on small funds and the Commission estimates that the elimination of the requirement will produce an approximate savings of \$1.8 million annually based on an estimate of 180 filings of Form N-1A per year by newly organized funds. The elimination of this requirement also promotes competition and capital formation by decreasing cost-related barriers to entry. On balance, the Commission believes that the amendments to Form N-1A benefit investors, foster efficiency, and tend to promote competition and capital formation.

IV. Paperwork Reduction Act

As explained in the Form N-1A Proposing Release, the amendments to Form N-1A contain "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995 ("PRA").²³³ The collection of information requirements in this release were submitted to the Office of Management and Budget ("OMB") for review under section 3507(d) of the PRA. OMB approved the collection of information under the title "Form N-1A Under the Investment Company Act of 1940 and the Securities Act of 1933, Registration Statement of Open-End Management Investment Companies" and assigned it a control number of 3235-0307. The collection of information contained in the release is in accordance with the clearance requirements of 44 U.S.C. 3507. An

²³¹ 15 U.S.C. 80a-2(c). See also section 2(b) of the Investment Company Act. 15 U.S.C. 77b(b).

²³² Form N-1A Proposing Release, *supra* note 8.

²³³ 44 U.S.C. 3501, *et seq.*

agency may not conduct or sponsor, and a person is not required to respond to, a collection of information, unless the agency displays a valid OMB control number.

Funds use Form N-1A to register under the Investment Company Act and to register the offer for sale of their shares under the Securities Act. The amendments to Form N-1A seek to minimize prospectus disclosure about technical, legal, and operational matters that generally are common to all funds and focus disclosure on essential information about a particular fund that would assist an investor in deciding whether to invest in that fund. The filing of Form N-1A is mandatory. Responses to the disclosure requirements of Form N-1A will not be kept confidential.

The Commission solicited public comment on the collection of information requirements contained in the Form N-1A Proposing Release and received no comments on the PRA portion of the release. The estimated total burden, purpose, use and necessity of the collection of information will be the same as detailed in the Form N-1A Proposing Release.

V. Summary of Final Regulatory Flexibility Analysis

The Commission has prepared a Final Regulatory Flexibility Analysis ("FRFA") in accordance with 5 U.S.C. 604 regarding the amendments to Form N-1A. The FRFA explains that the amendments will revise disclosure requirements for fund prospectuses to minimize prospectus disclosure about technical, legal, and operational matters that generally are common to all funds and focus prospectus disclosure on essential information about a particular fund that will assist investors in deciding whether to invest in that fund. The FRFA also explains that the amendments are intended to improve fund prospectuses and to promote more effective communication of information about funds.

The Commission requested comment with respect to the Initial Regulatory Flexibility Analysis ("IRFA") contained in Form N-1A Proposing Release. The Commission did not receive any comments with respect to the IRFA.

The Commission estimates that approximately 2,700 registered open-end management investment companies are subject to the requirements of Form N-1A. Of these, approximately 620 (23%) are funds that meet the Commission's definition of small entity for the purposes of the Securities Act and the Investment Company Act—an investment company with net assets of

\$50 million or less as of the end of its most recent fiscal year [17 CFR 230.157(b) and 270.0-10].

The FRFA explains that Form N-1A, as amended, will not impose any substantial additional burdens for small entities because most of the changes do not require the development of new information. Initially, however, the changes will require funds to amend the format in which they present information in their prospectuses. The amendments primarily will clarify and simplify the instructions for completing Form N-1A, shift information from the prospectus to the SAI, and require new formats for certain information. A fund's initial update under Form N-1A, as amended, may take longer than preparing a current prospectus due to a lack of familiarity with the new format. On balance, however, the Commission believes that preparing and updating the revised Form should take the same amount of time (or possibly less time) as preparing and updating the current Form.

As stated in the FRFA, the Commission considered several alternatives to the amendments, including, among others, establishing different compliance or reporting requirements for small entities or exempting them from all or part of the rule. Because the amendments to Form N-1A are intended to improve prospectus disclosure for all investors, whether they invest in funds that are small entities or others, the Commission believes that separate treatment for small entities is inconsistent with the protection of investors. A copy of the FRFA may be obtained by contacting Markian M.W. Melnyk, Deputy Chief, Office of Disclosure Regulation, Securities and Exchange Commission, 450 5th Street, N.W., Mail Stop 5-6, Washington, D.C. 20549-6009.

VI. Statutory Authority

The Commission is amending rules and forms pursuant to sections 5, 7, 8, 10 and 19(a) of the Securities Act [15 U.S.C. 77e, 77g, 77h, 77j, and 77s(a)], and sections 8, 22, 24(g), 30 and 38 of the Investment Company Act [15 U.S.C. 80a-8, 80a-22, 80a-24(g), 80a-29, and 80a-37]. The authority citations for the amendments to the rules and forms precede the text of the amendments.

Text of Rule and Form Amendments

List of Subjects in 17 CFR Parts 230, 232, 239, 240, 270 and 274

Investment companies, Reporting and recordkeeping requirements, Securities.

For the reasons set out in the preamble, the Commission amends

Chapter II, Title 17 of the Code of Federal Regulations as follows:

PART 230—GENERAL RULES AND REGULATIONS, SECURITIES ACT OF 1933

1. The general authority citation for Part 230 is revised to read as follows:

Authority: 15 U.S.C. 77b, 77f, 77g, 77h, 77j, 77r, 77s, 77sss, 78c, 78d, 78l, 78m, 78n, 78o, 78w, 78ll(d), 79t, 80a-8, 80a-24, 80a-29, 80a-30, and 80a-37, unless otherwise noted.

* * * * *

2. Revise the note immediately preceding § 230.480 to read as follows:

Note: The rules in this section of Regulation C (§§ 230.480 to 230.488 and §§ 230.495 to 230.498) apply only to investment companies and business development companies. Section 230.489 applies to certain entities excepted from the definition of investment company by rules under the Investment Company Act of 1940. The rules in the rest of Regulation C (§§ 230.400 to 230.479 and §§ 230.490 to 230.494), unless the context specifically indicates otherwise, also apply to investment companies and business development companies. See § 230.400.

§ 230.483 [Amended]

3. Amend § 230.483 to remove all references to "3(a)" under the heading "Form N-1A" in the table following paragraph (e)(4) and add, in their place, "9", and to remove the references to "3(b)" and the corresponding item descriptions under the heading "Form N-1A" in the table following paragraph (e)(4).

§ 230.485 [Amended]

4. Amend § 230.485 to correct the reference "paragraph (b)(1)(v)" in the introductory text of paragraph (b) to read "paragraph (b)(1)(iii)", and to revise the reference "Items 5(c) or 5A" in paragraph (b)(1)(iv) to read "Items 5 or 6(a)(2)".

§ 230.495 [Amended]

5. Amend § 230.495 to remove the words "cross-reference sheet;" from paragraph (a).

§ 230.497 [Amended]

6. Amend § 230.497 to remove the words "together with 5 copies of a cross reference sheet similar to that previously filed, if changed" from paragraph (d) and "together with five copies of a cross-reference sheet similar to that previously filed, if changed" from paragraph (e).

PART 232—REGULATION S-T—GENERAL RULES AND REGULATIONS FOR ELECTRONIC FILINGS

7. The authority citation for Part 232 continues to read as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s(a), 77sss(a), 78c(b), 78l, 78m, 78n, 78o(d), 78w(a), 78ll(d), 79t(a), 80a-8, 80a-29, 80a-30 and 80a-37.

8. Amend § 232.304 to revise the reference to "Item 5A" in paragraph (d) to read "Item 5".

PART 239—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

9. The general authority citation for Part 239 is revised to read as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77z-2, 77sss, 78c, 78l, 78m, 78n, 78o(d), 78u-5, 78w(a), 78ll(d), 79e, 79f, 79g, 79j, 79l, 79m, 79n, 79q, 79t, 80a-8, 80a-24, 80a-29, 80a-30 and 80a-37, unless otherwise noted.

* * * * *

10. Amend Form N-14 (referenced in § 239.23) to revise the reference "Item 2 of Form N-1A" in Item 3(a) to read "Item 3 of Form N-1A", to revise the reference "Items 10 through 23 of Form N-1A" in Item 12(a) to read "Items 10 through 22 of Form N-1A", and to revise the reference "Items 10 through 14 and 16 through 23 of Form N-1A" in Item 13(a) to read "Items 10 through 13 and 15 through 22 of Form N-1A," and revise paragraph (a) of Item 5 to read as follows:

Note: Form N-14 does not and these amendments will not appear in the *Code of Federal Regulations*.

Form N-14

* * * * *

Item 5.

* * * * *

(a) If the registrant is an open-end management investment company, furnish the information required by Items 2, 3, 4(a) and (b), and 5-9 of Form N-1A under the 1940 Act; *provided, however*, that the information required

by Item 5 may be omitted if the prospectus is accompanied by an annual report to shareholders containing the information otherwise required by Item 5;

* * * * *

PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

11. The general authority citation for Part 240 is revised to read, in part, as follows:

Authority: 15 U.S.C. 77c, 77d, 77g, 77j, 77s, 77z-2, 77eee, 77ggg, 77nnn, 77sss, 77ttt, 78c, 78d, 78f, 78i, 78j, 78j-1, 78k, 78k-1, 78l, 78m, 78n, 78o, 78p, 78q, 78s, 78u-5, 78w, 78x, 78ll(d), 78mm, 79q, 79t, 80a-20, 80a-23, 80a-29, 80a-37, 80b-3, 80b-4 and 80b-11, unless otherwise noted.

* * * * *

§ 240.14a-101 [Amended]

12. Amend § 240.14a-101 to revise the reference "Item 5" in paragraph (a)(1)(i) of Item 22 to read "Item 15(h)", the reference "Item 2" in paragraph (a)(3)(iv) of Item 22 to read "Item 3", and the reference "Item 2(a)(ii)" in Instruction 4 to paragraph (a)(3)(iv) of Item 22 to read "Item 3".

PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

13. The authority citation for part 270 continues to read as follows:

Authority: 15 U.S.C. 80a-1, *et seq.*, 80a-34(b)(1), 80a-37, 80a-39 unless otherwise noted;

* * * * *

14. Amend § 270.8b-11 to remove the word "manually" from paragraph (c)

and to revise paragraph (e) to read as follows:

§ 270.8b-11 Number of copies; signatures; binding.

* * * * *

(e) *Signatures.* Where the Act or the rules thereunder, including paragraph (c) of this section, require a document filed with or furnished to the Commission to be signed, the document should be manually signed, or signed using either typed signatures or duplicated or facsimile versions of manual signatures. When typed, duplicated or facsimile signatures are used, each signatory to the filing shall manually sign a signature page or other document authenticating, acknowledging, or otherwise adopting his or her signature that appears in the filing. Execute each such document before or at the time the filing is made and retain for a period of five years. Upon request, the registrant shall furnish to the Commission or its staff a copy of any or all documents retained pursuant to this section.

PART 274—FORMS PRESCRIBED UNDER THE INVESTMENT COMPANY ACT OF 1940

15. The authority citation for Part 274 continues to read as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78c(b), 78l, 78m, 78n, 78o(d), 80a-8, 80a-24, and 80a-29, unless otherwise noted.

16. Revise Form N-1A (referenced in §§ 239.15A and 274.11A) (including the Guidelines to the Form) to read as follows:

Note: The text of Form N-1A does not and this amendment will not appear in the Code of Federal Regulations.

OMB Approval
OMB Number:
Expires:
Estimated average burden hours per response

Securities and Exchange Commission

Washington, D.C. 20549

Form N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 []

Pre-Effective Amendment No. []

Post-Effective Amendment No. []

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 []

Amendment No. []

(Check appropriate box or boxes.)

(Exact Name of Registrant as Specified in Charter)

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, including Area Code

(Name and Address of Agent for Service)

Approximate Date of Proposed Public Offering _____

It is proposed that this filing will become effective (check appropriate box)

- ☐ Immediately upon filing pursuant to paragraph (b)
- ☐ on (date) pursuant to paragraph (b)
- ☐ 60 days after filing pursuant to paragraph (a)(1)
- ☐ On (date) pursuant to paragraph (a)(1)
- ☐ 75 days after filing pursuant to paragraph (a)(2)
- ☐ On (date) pursuant to paragraph (a)(2) of rule 485.

If appropriate, check the following box:

- ☐ This post-effective amendment designates a new effective date for a previously filed post-effective amendment.

Omit from the facing sheet reference to the other Act if the Registration Statement or amendment is filed under only one of the Acts. Include the "Approximate Date of Proposed Public Offering" only when shares are being registered under the Securities Act of 1933.

Form N-1A is to be used by open-end management investment companies, except insurance company separate accounts and small business investment companies licensed under the United States Small Business Administration, to register under the Investment Company Act of 1940 and to offer their shares under the Securities Act of 1933. The Commission has designed Form N-1A to provide investors with information that will assist them in making a decision about investing in an investment company eligible to use the Form. The Commission also may use the information provided on Form N-1A in its regulatory, disclosure review, inspection, and policy making roles.

A Registrant is required to disclose the information specified by Form N-1A, and the Commission will make this information public. A Registrant is not required to respond to the collection of information contained in Form N-1A unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549-6009. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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GENERAL INSTRUCTIONS

A. Definitions

References to sections and rules in this Form N-1A are to the Investment Company Act of 1940 [15 U.S.C. 80a-1 *et seq.*] (the "Investment Company Act"), unless otherwise indicated. Terms used in this Form N-1A have the same meaning as in the Investment Company Act or the related rules, unless otherwise indicated. As used in this Form N-1A, the terms set out below have the following meanings:

"Class" means a class of shares issued by a Multiple Class Fund that represents interests in the same portfolio of securities under rule 18f-3 [17 CFR 270.18f-3] or under an order exempting the Multiple Class Fund from sections 18(f), 18(g), and 18(i) [15 U.S.C. 80a-18(f), 18(g), and 18(i)].

"Fund" means the Registrant or a separate Series of the Registrant. When an item of Form N-1A specifically applies to a Registrant or a Series, those terms will be used.

"Master-Feeder Fund" means a two-tiered arrangement in which one or more Funds (each a "Feeder Fund") holds shares of a single Fund (the "Master Fund") in accordance with section 12(d)(1)(E) [15 U.S.C. 80a-12(d)(1)(E)].

"Money Market Fund" means a Fund that holds itself out as money market fund and meets the maturity, quality, and diversification requirements of rule 2a-7 [17 CFR 270.2a-7].

"Multiple Class Fund" means a Fund that has more than one Class.

"Registrant" means an open-end management investment company registered under the Investment Company Act.

"SAI" means the Statement of Additional Information required by Part B of this Form.

"Securities Act" means the Securities Act of 1933 [15 U.S.C. 77a *et seq.*].

"Securities Exchange Act" means the Securities Exchange Act of 1934 [15 U.S.C. 78a *et seq.*].

"Series" means shares offered by a Registrant that represent undivided interests in a portfolio of investments and that are preferred over all other series of shares for assets specifically allocated to that series in accordance with rule 18f-2(a) [17 CFR 270.18f-2(a)].

B. Filing and Use of Form N-1A

1. What is Form N-1A Used for?

Form N-1A is used by Funds, except insurance company separate accounts and small business investment companies licensed under the United States Small Business Administration, to file:

(a) An initial registration statement under the Investment Company Act and amendments to the registration statement, including amendments required by rule 8b-16 [17 CFR 270.8b-16];

(b) An initial registration statement under the Securities Act and amendments to the registration statement, including amendments required by section 10(a)(3) of the Securities Act [15 U.S.C. 77j(a)(3)]; or

(c) Any combination of the filings in paragraph (a) or (b).

2. What Is Included in the Registration Statement?

(a) For registration statements or amendments filed under both the Investment Company Act and the Securities Act or only under the Securities Act, include the facing sheet of the Form, Parts A, B, and C, and the required signatures.

(b) For registration statements or amendments filed only under the Investment Company Act, include the facing sheet of the Form, responses to all Items of Parts A (except Items 1, 2, 3, 5, and 9), B, and C (except Items 23(e) and (i)-(k)), and the required signatures.

3. What Are the Fees for Form N-1A?

No registration fees are required with the filing of Form N-1A to register as an investment company under the Investment Company Act or to register securities under the Securities Act. See section 24(f) [15 U.S.C. 80a-24f-2] and related rule 24f-2 [17 CFR 270.24f-2].

4. What Rules Apply to the Filing of a Registration Statement on Form N-1A?

(a) For registration statements and amendments filed under both the Investment Company Act and the Securities Act or only under the Securities Act, the general rules regarding the filing of registration statements in Regulation C under the Securities Act [17 CFR 230.400-230.497] apply to the filing of Form N-1A. Specific requirements concerning Funds appear in rules 480-485 and 495-497 of Regulation C.

(b) For registration statements and amendments filed only under the Investment Company Act, the general provisions in rules 8b-1-8b-32 [17 CFR 270.8b-1-270.8b-32] apply to the filing of Form N-1A.

(c) The plain English requirements of rule 421 under the Securities Act [17 CFR 230.421] apply to prospectus disclosure in Part A of Form N-1A.

(d) Regulation S-T [17 CFR 232.10-232.903] applies to all filings on the Commission's Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR").

C. Preparation of the Registration Statement

1. Administration of the Form N-1A Requirements

(a) The requirements of Form N-1A are intended to promote effective communication between the Fund and prospective investors. A Fund's prospectus should clearly disclose the fundamental characteristics and investment risks of the Fund, using concise, straightforward, and easy to understand language. A Fund should use document design techniques that promote effective communication. The prospectus should emphasize the Fund's overall investment approach and strategy.

(b) The prospectus disclosure requirements in Form N-1A are intended to elicit information for an average or typical investor who may not be sophisticated in legal or financial matters. The prospectus should help investors to evaluate the risks of an investment and to decide whether to invest in a Fund by providing a balanced disclosure of positive and negative factors. Disclosure in the prospectus should be designed to assist an investor in comparing and contrasting the Fund with other funds.

(c) Responses to the Items in Form N-1A should be as simple and direct as reasonably possible and should include only as much information as is necessary to enable an average or typical investor to understand the particular characteristics of the Fund. The prospectus should avoid: including lengthy legal and technical discussions; simply restating legal or regulatory requirements to which Funds generally are subject; and disproportionately emphasizing possible investments or activities of the Fund that are not a significant part of the Fund's investment operations. Brevity is especially important in describing the practices or aspects of the Fund's operations that do not differ materially from those of other investment companies. Avoid excessive detail, technical or legal terminology, and complex language. Also avoid lengthy sentences and paragraphs that may make the prospectus difficult for many investors to understand and detract from its usefulness.

(d) The requirements for prospectuses included in Form N-1A will be administered by the Commission in a way that will allow variances in disclosure or presentation if appropriate for the circumstances involved while remaining consistent with the objectives of Form N-1A.

2. Form N-1A is Divided Into Three Parts

(a) *Part A.* Part A includes the information required in a Fund's prospectus under section 10(a) of the Securities Act. The purpose of the prospectus is to provide essential information about the Fund in a way that will help investors to make informed decisions about whether to purchase the Fund's shares described in the prospectus. In responding to the Items in Part A, avoid cross-references to the SAI or shareholder reports. Cross-references within the prospectus are most useful when their use assists investors in understanding the information presented and does not add complexity to the prospectus.

(b) *Part B.* Part B includes the information required in a Fund's SAI. The purpose of the SAI is to provide additional information about the Fund that the Commission has concluded is not necessary or appropriate in the public interest or for the protection of

investors to be in the prospectus, but that some investors may find useful. Part B affords the Fund an opportunity to expand discussions of the matters described in the prospectus by including additional information that the Fund believes may be of interest to some investors. The Fund should not duplicate in the SAI information that is provided in the prospectus, unless necessary to make the SAI comprehensible as a document independent of the prospectus.

(c) *Part C.* Part C includes other information required in a Fund's registration statement.

3. Additional Matters

(a) *Organization of Information.* Organize the information in the prospectus and SAI to make it easy for investors to understand. Disclose the information required by Items 2 and 3 (the Risk/Return Summary) in numerical order at the front of the prospectus. Do not precede these Items with any other Item except the Cover Page (Item 1) or a table of contents meeting the requirements of rule 481(c) under the Securities Act. If the discussion in the Risk/Return Summary also responds to the disclosure requirements in Item 4, a Fund need not include additional disclosure in the prospectus responding to Item 4. Disclose the information required by Item 8 (Distribution Arrangements) in one place in the prospectus.

(b) *Other Information.* A Fund may include, except in the Risk/Return Summary, information in the prospectus or the SAI that is not otherwise required. For example, a Fund may include charts, graphs or tables so long as the information is not incomplete, inaccurate, or misleading and does not, because of its nature, quantity, or manner of presentation, obscure or impede understanding of the information that is required to be included. The Risk/Return Summary may not include disclosure other than that required or permitted by Items 2 and 3.

(c) *Use of Form N-1A by More Than One Registrant, Series or Class.* Form N-1A may be used by one or more Registrants, Series, or Classes.

(i) When disclosure is provided for more than one Fund or Class, the disclosure should be presented in a format designed to communicate the information effectively. Funds may order or group the response to any Item in any manner that organizes the information into readable and comprehensible segments and is consistent with the intent of the prospectus to provide clear and concise information about the Funds or Classes. Funds are encouraged to use, as appropriate, tables, side-by-side comparisons, captions, bullet points, or other organizational techniques when presenting disclosure for multiple Funds or Classes.

(ii) Paragraph (a) requires Funds to disclose the information required by Items 2 and 3 in numerical order at the front of the prospectus and not to precede the Items with other information. As a general matter, multiple Funds or Multiple Class Funds may depart from the requirement of paragraph (a) as necessary to present the required information clearly and effectively (although the order of information required by each Item must remain the same). For example, the prospectus may present all of the Item 2 information for several Funds followed by all of the Item 3 information for the Funds, or may present Items 2 and 3 for each of several Funds sequentially. Other presentations also would be acceptable if they are consistent with the Form's intent to disclose the information required by Items 2 and 3 in a standard order at the beginning of the prospectus.

(d) *Modified Prospectuses for Certain Funds.*

(i) A Fund may modify or omit, if inapplicable, the information required by Items 7(b)–(d) and 8(a)(2) for funds used as investment options for:

(A) A defined contribution plan that meets the requirements for qualification under section 401(k) of the Internal Revenue Code (26 U.S.C. 401(k));

(B) A tax-deferred arrangement under sections 403(b) or 457 of the Internal Revenue Code (26 U.S.C. 403(b) and 457); and

(C) A variable contract as defined in section 817(d) of the Internal Revenue Code (26 U.S.C. 817(d)), if covered in a separate account prospectus.

(ii) A Fund that uses a modified prospectus under Instruction (d)(i) may:

(A) Alter the legend required on the back cover page by Item 1(b)(1) to state, as applicable, that the prospectus is intended for use in connection with a defined contribution plan, tax-deferred arrangement, or variable contract; and

(B) Modify other disclosure in the prospectus consistent with offering the Fund as a specific investment option for a defined contribution plan, tax-deferred arrangement, or variable contract.

(e) *Dates.* Rule 423 under the Securities Act [17 CFR 230.423] applies to the dates of the prospectus and the SAI. The SAI should be made available at the same time that the prospectus becomes available for purposes of rules 430 and 460 under the Securities Act [17 CFR 230.430 and 230.460].

(f) *Sales Literature.* A Fund may include sales literature in the prospectus so long as the amount of this information does not add substantial length to the prospectus and its placement does not obscure essential disclosure.

D. Incorporation by Reference

1. Specific Rules for Incorporation by Reference in Form N-1A

(a) A Fund may not incorporate by reference into a prospectus information that Part A of this Form requires to be included in a prospectus, except as specifically permitted by Part A of the Form.

(b) A Fund may incorporate by reference any or all of the SAI into the prospectus (but not to provide any information required by Part A to be included in the prospectus) without delivering the SAI with the prospectus.

(c) A Fund may incorporate by reference into the SAI or its response to Part C, information that Parts B and C require to be included in the Fund's registration statement.

2. General Requirements

All incorporation by reference must comply with the requirements of this Form and the following rules on incorporation by reference: rule 10(d) of Regulation S-K under the Securities Act [17 CFR 229.10(d)] (general rules on incorporation by reference, which, among other things, prohibit, unless specifically required by this Form, incorporating by reference a document that includes incorporation by reference to another document, and limits incorporation to documents filed within the last 5 years, with certain exceptions); rule 411 under the Securities Act [17 CFR 230.411] (general rules on incorporation by reference in a prospectus); rule 303 of Regulation S-T [17 CFR 232.303] (specific requirements for electronically filed documents); and rules 0-4, 8b-23 and 8b-32 [17 CFR 270.0-4, 270.8b-23 and 270.8b-32] (additional rules on incorporation by reference for Funds).

Part A: Information Required in a Prospectus

Item 1. Front and Back Cover Pages

(a) *Front Cover Page.* Include the following information, in plain English under rule 421(d) under the Securities Act, on the outside front cover page of the prospectus:

(1) The Fund's name.

(2) The date of the prospectus.

(3) The statement required by rule 481(b)(1) under the Securities Act.

Instruction. A Fund may include on the front cover page a statement of its investment objectives, a brief (e.g., one sentence) description of its operations, or any additional information, subject to the requirement set out in General Instruction C.3(b).

(b) *Back Cover Page.* Include the following information, in plain English under rule 421(d) under the Securities Act, on the outside back cover page of the prospectus:

(1) A statement that the SAI includes additional information about the Fund, and a statement to the following effect:

Additional information about the Fund's investments is available in the Fund's annual and semi-annual reports to shareholders. In the Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year.

Explain that the SAI and the Fund's annual and semi-annual reports are available, without charge, upon request, and explain how shareholders in the Fund may make inquiries to the Fund. Provide a toll-free (or collect) telephone number for investors to call: to request the SAI; to request the Fund's annual report, if required by Item 5; to request the Fund's semi-annual report; to request other information about the Fund; and to make shareholder inquiries.

Instructions.

1. A Fund may indicate, if applicable, that the SAI and other information are available on its Internet site and/or by E-mail request.

2. A Fund may indicate, if applicable, that the SAI and other information are available from a financial intermediary (such as a broker-dealer or bank) through which shares of the Fund may be purchased or sold.

3. When a Fund (or financial intermediary through which shares of the Fund may be purchased or sold) receives a request for the SAI, the annual report, or the semi-annual report, the Fund (or financial intermediary) must send the requested document within 3 business days of receipt of the request, by first-class mail or other means designed to ensure equally prompt delivery.

4. A Fund that has not yet been required to deliver an annual or semi-annual report to shareholders under rule 30d-1 [17 CFR 270.30d-1] may omit the statements required by this paragraph regarding the reports.

5. A Fund that provides the information required by Item 5 (Management's Discussion of Fund Performance) in its prospectus (and not in its annual report), or a Money Market Fund, may omit the sentence indicating that a reader will find in the Fund's annual report a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year.

6. A Fund that provides a separate disclosure document to investors under Item 7(f) must include the statement required by Item 7(f)(3).

(2) A statement whether and from where information is incorporated by reference into the prospectus as permitted by General Instruction D. Unless the information is delivered with the prospectus, explain that the Fund will provide the information without charge, upon request (referring to the telephone number provided in response to paragraph (b)(1)).

Instruction. The Fund may combine the information about incorporation by reference with the statements required under paragraph (b)(1).

(3) A statement that information about the Fund (including the SAI) can be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Also state that information on the operation of the public reference room may be obtained by calling the Commission at 1-800-SEC-0330. State that reports and other information about the Fund are available on the Commission's Internet site at <http://www.sec.gov> and that copies of this information may be obtained, upon payment of a duplicating fee, by writing the Public Reference Section of the Commission, Washington, D.C. 20549-6009.

(4) The Fund's Investment Company Act file number on the bottom of the back cover page in type size smaller than that generally used in the prospectus (e.g., 8-point modern type).

Item 2. Risk/Return Summary: Investments, Risks, and Performance

Include the following information, in plain English under rule 421(d) under the Securities Act, in the order and subject matter indicated:

(a) *Fund investment objectives/goals.*

Disclose the Fund's investment objectives or goals. A Fund also may identify its type or category (e.g., that it is a Money Market Fund or a balanced fund).

(b) *Principal investment strategies of the Fund.*

Based on the information given in response to Item 4(b), summarize how the Fund intends to achieve its investment objectives by identifying the Fund's principal investment strategies (including the type or types of securities in which the Fund invests or will invest principally) and any policy to concentrate in securities of issuers in a particular industry or group of industries.

(c) *Principal risks of investing in the Fund.*

(1) *Narrative Risk Disclosure.*

(i) Based on the information given in response to Item 4(c), summarize the principal risks of investing in the Fund, including the risks to which the Fund's portfolio as a whole is subject and the circumstances reasonably likely to affect adversely the Fund's net asset value, yield, and total return. Unless the Fund is a Money Market Fund, disclose that loss of money is a risk of investing in the Fund.

Instruction. A Fund may, in responding to this Item, describe the types of investors for whom the Fund is intended or the types of investment goals that may be consistent with an investment in the Fund.

(ii) If the Fund is a Money Market Fund, state that:

An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

(iii) If the Fund is advised by or sold through an insured depository institution, state that:

An investment in the Fund is not a deposit of the bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Instruction. A Money Market Fund that is advised by or sold through an insured depository institution should combine the disclosure required by Items 2(c)(1)(ii) and (iii) in a single statement.

(iv) If applicable, state that the Fund is non-diversified, describe the effect of non-diversification (e.g., disclose that, compared with other funds, the Fund may invest a greater percentage of its assets in a particular issuer), and summarize the risks of investing in a non-diversified fund.

(2) *Risk/Return Bar Chart and Table.*

(i) Include the bar chart and table required by paragraphs (c)(2)(ii) and (iii) of this section. Provide a brief explanation of how the information illustrates the variability of the Fund's returns (e.g., by stating that the information provides some indication of the risks of investing in the Fund by showing changes in the Fund's performance from year to year and by showing how the Fund's average annual returns for 1, 5, and 10 years compare with those of a broad measure of market performance). Provide a statement to the effect that how the Fund has performed in the past is not necessarily an indication of how the Fund will perform in the future.

(ii) If the Fund has annual returns for at least one calendar year, provide a bar chart showing the Fund's annual total returns for each of the last 10 calendar years (or for the life of the Fund if less than 10 years), but only for periods subsequent to the effective date of the Fund's registration statement. Present the corresponding numerical return adjacent to each bar. If the Fund's fiscal year is other than a calendar year, include the year-to-date return information as of the end of the most recent quarter in

a footnote to the bar chart. Following the bar chart, disclose the Fund's highest and lowest return for a quarter during the 10 years or other period of the bar chart.

(iii) If the Fund has annual returns for at least one calendar year, provide a table showing the Fund's average annual total returns for 1, 5, and 10 calendar year periods ending on the date of the most recently completed calendar year (or for the life of the Fund, if shorter), but only for periods subsequent to the effective date of the Fund's registration statement, and the returns of an appropriate broad-based securities market index as defined in Instruction 5 to Item 5(b) for the same periods. A Fund that has been in existence for more than 10 years also may include average annual returns for the life of the fund. A Money Market Fund may provide the Fund's 7-day yield ending on the date of the most recent calendar year or disclose a toll-free (or collect) telephone number that investors can use to obtain the Fund's current 7-day yield.

Instructions.

1. Bar Chart.

(a) Provide annual total returns beginning with the earliest calendar year. Calculate annual returns using the Instructions to Item 9(a), except that the calculations should be based on calendar years. If a Fund's shares are sold subject to a sales load or account fees, state that sales loads or account fees are not reflected in the bar chart and that, if these amounts were reflected, returns would be less than those shown.

(b) For a Fund that provides annual total returns for only one calendar year or for a Fund that does not include the bar chart because it does not have annual returns for a full calendar year, modify, as appropriate, the narrative explanation required by paragraph (c)(2)(i) (e.g., by stating that the information gives some indication of the risks of an investment in the Fund by comparing the Fund's performance with a broad measure of market performance).

2. Table.

(a) Calculate the Fund's average annual total returns under Item 21(b)(1) and a Money Market Fund's 7-day yield under Item 21(a).

(b) A Fund may include, in addition to the required broad-based securities market index, information for one or more other indexes as permitted by Instruction 6 to Item 5(b). If an additional index is included, disclose information about the additional index in the narrative explanation accompanying the bar chart and table (e.g., by stating that the information shows how the Fund's performance compares with the returns of an index of funds with similar investment objectives).

(c) If the Fund selects an index that is different from the index used in a table for the immediately preceding period, explain the reason(s) for the selection of a different index and provide information for both the newly selected and the former index.

(d) A Fund (other than a Money Market Fund) may include the Fund's yield calculated under Item 21(b)(2). Any Fund may include its tax-equivalent yield calculated under Item 21. If a Fund's yield is included, provide a toll-free (or collect) telephone number that investors can use to obtain current yield information.

3. Multiple Class Funds.

(a) When a Multiple Class Fund offers more than one Class in the prospectus, provide annual total returns in the bar chart for only one of those Classes. The Fund can select which Class to include (e.g., the oldest Class, the Class with the greatest net assets) if the Fund:

(i) Selects the Class offered in the prospectus with 10 or more years of annual returns if other Classes have fewer than 10 years of annual returns;

(ii) Selects the Class with the longest period of annual returns when the Classes offered in the prospectus all have fewer than 10 years of returns; and

(iii) If the Fund provides annual total returns in the bar chart for a Class that is different from the Class selected for the most immediately preceding period, explain in a footnote to the bar chart the reasons for the selection of a different Class.

(b) When a Multiple Class Fund offering one or more Classes offers a new Class in a prospectus that does not offer the shares of any other Class, include the bar chart with annual total returns for any other existing Class for the first year that the Class is offered. Explain in a footnote that the returns are for a Class that is not offered in the prospectus that would have substantially similar annual returns because the shares are invested in the same portfolio of securities and the annual returns would differ only to the extent that the Classes do not have the same expenses. Include return information for the other Class reflected in the bar chart in the performance table.

(c) Provide average annual total returns in the table for each Class offered in the prospectus.

(d) If a Multiple Class Fund offers a Class in the prospectus that converts into another Class after a stated period, compute average annual total returns in the table by using the returns of the other Class for the period after conversion.

4. *Change in Investment Adviser.* If the Fund has not had the same investment adviser during the last 10 calendar years, the Fund may begin the bar chart and the performance information in the table on the date that the current adviser began to provide advisory services to the Fund subject to the conditions in Instruction 11 of Item 5(b).

Item 3. Risk/Return Summary: Fee Table

Include the following information, in plain English under rule 421(d) under the Securities Act, after Item 2 (unless the Fund offers its shares exclusively to one or more separate accounts):

FEES AND EXPENSES OF THE FUND

[This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.]

Shareholder Fees (fees paid directly from your investment):		
Maximum Sales Charge (Load) Imposed on Purchases (as a percentage of offering price)		%
Maximum Deferred Sales Charge (Load) (as a percentage of)		%
Maximum Sales Charge (Load) Imposed on Reinvested Dividends [and other Distributions] (as a percentage of)		%
Redemption Fee (as a percentage of amount redeemed, if applicable)		%
Exchange Fee		%
Maximum Account Fee		%
Annual Fund Operating Expenses (expenses that are deducted from Fund assets):		
Management Fees		%
Distribution [and/or Service] (12b-1) Fees		%
Other Expenses		%
.....	%	
.....	%	
.....	%	
Total Annual Fund Operating Expenses		%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

1 year	3 years	5 years	10 years
\$	\$	\$	\$

You would pay the following expenses if you did not redeem your shares:

1 year	3 years	5 years	10 years
\$	\$	\$	\$

The Example does not reflect sales charges (loads) on reinvested dividends [and other distributions]. If these sales charges (loads) were included, your costs would be higher.

Instructions.**1. General.**

(a) Round all dollar figures to the nearest dollar and all percentages to the nearest hundredth of one percent.

(b) Include the narrative explanations in the order indicated. A Fund may modify the narrative explanations if the explanation contains comparable information to that shown.

(c) Include the caption "Maximum Account Fees" only if the Fund charges these fees. A Fund may omit other captions if the Fund does not charge the fees or expenses covered by the captions.

(d)(i) If the Fund is a Feeder Fund, reflect the aggregate expenses of the Feeder Fund and the Master Fund in a single fee table using the captions provided. In a footnote to the fee table, state that the table and Example reflect the expenses of both the Feeder and Master Funds.

(ii) If the prospectus offers more than one Class of a Multiple Class Fund or more than one Feeder Fund that invests in the same Master Fund, provide a separate response for each Class or Feeder Fund.

2. Shareholder Fees.

(a)(i) "Maximum Deferred Sales Charge (Load)" includes the maximum total deferred sales charge (load) payable upon redemption, in installments, or both, expressed as a percentage of the amount or amounts stated in response to Item 8(a), except that, for a sales charge (load) based on net asset value at the time of purchase, show the sales charge (load) as a percentage of the offering price at the time of purchase. A Fund may include in a footnote to the table, if applicable, a tabular presentation showing the amount of deferred sales charges (loads) over time or a narrative explanation of the sales charges (loads) (e.g., —% in the first year after purchase, declining to —% in the — year and eliminated thereafter).

(ii) If more than one type of sales charge (load) is imposed (e.g., a deferred sales charge (load) and a front-end sales charge (load)), the first caption in the table should read "Maximum Sales Charge (Load)" and show the maximum cumulative percentage. Show the percentage amounts and the terms of each sales charge (load) comprising that figure on separate lines below.

(iii) If a sales charge (load) is imposed on shares purchased with reinvested capital gains distributions or returns of capital, include the bracketed words in the third caption.

(b) "Redemption Fee" includes a fee charged for any redemption of the Fund's shares, but does not include a deferred sales charge (load) imposed upon redemption.

(c) "Exchange Fee" includes the maximum fee charged for any exchange or transfer of interest from the Fund to another fund. The Fund may include in a footnote to the table, if applicable, a tabular presentation of the range of exchange fees or a narrative explanation of the fees.

(d) "Maximum Account Fees." Disclose account fees that may be charged to a typical investor in the Fund; fees that apply to only a limited number of shareholders based on their particular circumstances need not be disclosed. Include a caption describing the maximum account fee (e.g., "Maximum Account Maintenance Fee" or "Maximum Cash Management Fee"). State the maximum annual account fee as either a fixed dollar amount or a percentage of assets. Include in a parenthetical to the caption the basis on which any percentage is calculated. If an account fee is charged only to accounts that do not meet a certain threshold (e.g., accounts under \$5,000), the Fund may include the threshold in a parenthetical to the caption or footnote to the table. The Fund may include an explanation of any non-recurring account fee in a parenthetical to the caption or in a footnote to the table.

3. Annual Fund Operating Expenses.

(a) "Management Fees" include investment advisory fees (including any fees based on the Fund's performance), any other management fees payable to the investment adviser or its affiliates, and administrative fees payable to the investment adviser or its affiliates that are not included as "Other Expenses."

(b) "Distribution [and/or Service] (12b-1) Fees" include all distribution or other expenses incurred during the most recent fiscal year under a plan adopted pursuant to rule 12b-1 [17 CFR 270.12b-1]. Under an appropriate caption or a subcaption of "Other Expenses," disclose the amount of any distribution or similar expenses deducted from the Fund's assets other than pursuant to a rule 12b-1 plan.

(c)(i) "Other Expenses" include all expenses not otherwise disclosed in the table that are deducted from the Fund's assets or charged to all shareholder accounts. The amount of expenses deducted from the Fund's assets are the amounts shown as expenses in the Fund's statement of operations (including increases resulting from complying with paragraph 2(g) of rule 6-07 of Regulation S-X [17 CFR 210.6-07]).

(ii) "Other Expenses" do not include extraordinary expenses as determined under generally accepted accounting principles (see Accounting Principles Board Opinion No. 30). If extraordinary expenses were incurred that materially affected the Fund's "Other Expenses," disclose in a footnote to the table what "Other Expenses" would have been had the extraordinary expenses been included.

(iii) The Fund may subdivide this caption into no more than three subcaptions that identify the largest expense or expenses comprising "Other Expenses," but must include a total of all "Other Expenses." Alternatively, the Fund may include the components of "Other Expenses" in a parenthetical to the caption.

(d)(i) Base the percentages of "Annual Fund Operating Expenses" on amounts incurred during the Fund's most recent fiscal year, but include in expenses amounts that would have been incurred absent expense reimbursement or fee waiver arrangements. If the Fund has changed its fiscal year and, as a result, the most recent fiscal year is less than three months, use the fiscal year prior to the most recent fiscal year as the basis for determining "Annual Fund Operating Expenses."

(ii) If there have been any changes in "Annual Fund Operating Expenses" that would materially affect the information disclosed in the table:

(A) Restate the expense information using the current fees as if they had been in effect during the previous fiscal year; and
 (B) In a footnote to the table, disclose that the expense information in the table has been restated to reflect current fees.

(iii) A change in "Annual Fund Operating Expenses" means either an increase or a decrease in expenses that occurred during the most recent fiscal year or that is expected to occur during the current fiscal year. A change in "Annual Fund Operating Expenses" does not include a decrease in operating expenses as a percentage of assets due to economies of scale or breakpoints in a fee arrangement resulting from an increase in the Fund's assets.

(e) The Fund may reflect actual operating expenses that include expense reimbursement or fee waiver arrangements in a footnote to the table. If the Fund provides this disclosure, also disclose the period for which the expense reimbursement or fee waiver arrangement is expected to continue, or whether it can be terminated at any time at the option of the Fund.

4. Example.

(a) Assume that the percentage amounts listed under "Annual Fund Operating Expenses" remain the same in each year of the 1-, 3-, 5-, and 10-year periods, except that an adjustment may be made to reflect reduced annual expenses resulting from completion of the amortization of initial organization expenses.

(b) For any breakpoint in any fee, assume that the amount of the Fund's assets remains constant as of the level at the end of the most recently completed fiscal year.

(c) Assume reinvestment of all dividends and distributions.

(d) Reflect recurring and non-recurring fees charged to all investors other than any exchange fees or any sales charges (loads) on shares purchased with reinvested dividends or other distributions. If sales charges (loads) are imposed on reinvested dividends or other distributions, include the narrative explanation following the Example and include the bracketed words when sales charges (loads) are charged on reinvested capital gains distributions or returns of capital. Reflect any shareholder account fees collected by more than one Fund by dividing the total amount of the fees collected during the most recent fiscal year for all Funds whose shareholders are subject to the fees by the total average net assets of the Funds. Add the resulting percentage to "Annual Fund Operating Expenses" and assume that it remains the same in each of the 1-, 3-, 5-, and 10-year periods. A Fund that charges account fees based on a minimum account requirement exceeding \$10,000 may adjust its account fees based on the amount of the fee in relation to the Fund's minimum account requirement.

(e) Reflect any deferred sales charge (load) by assuming redemption of the entire account at the end of the year in which the sales charge (load) is due. In the case of a deferred sales charge (load) that is based on the Fund's net asset value at the time of payment, assume that the net asset value at the end of each year includes the 5% annual return for that and each preceding year.

(f) Include the second 1-, 3-, 5-, and 10-year periods and related narrative explanation only if a sales charge (load) or other fee is charged upon redemption.

5. *New Funds.* For purposes of this Item, a "New Fund" is a Fund that does not include in Form N-1A financial statements reporting operating results or that includes financial statements for the Fund's initial fiscal year reporting operating results for a period of 6 months or less. The following Instructions apply to New Funds.

(a) Base the percentages expressed in "Annual Fund Operating Expenses" on payments that will be made, but include in expenses, amounts that will be incurred without reduction for expense reimbursement or fee waiver arrangements, estimating amounts of "Other Expenses." Disclose in a footnote to the table that "Other Expenses" are based on estimated amounts for the current fiscal year.

(b) The New Fund may reflect expense reimbursement or fee waiver arrangements that are expected to reduce any Fund operating expense or the estimate of "Other Expenses" (regardless of whether the arrangement has been guaranteed) in a footnote to the table. If the New Fund provides this disclosure, also disclose the period for which the expense reimbursement or fee waiver arrangement is expected to continue, or whether it can be terminated at any time at the option of the Fund.

(c) Complete only the 1- and 3-year period portions of the Example and estimate any shareholder account fees collected.

Item 4. Investment Objectives, Principal Investment Strategies, and Related Risks

(a) *Investment Objectives.* State the Fund's investment objectives and, if applicable, state that those objectives may be changed without shareholder approval.

(b) *Implementation of Investment Objectives.* Describe how the Fund intends to achieve its investment objectives. In the discussion:

(1) Describe the Fund's principal investment strategies, including the particular type or types of securities in which the Fund principally invests or will invest.

Instructions.

1. A strategy includes any policy, practice, or technique used by the Fund to achieve its investment objectives.

2. Whether a particular strategy, including a strategy to invest in a particular type of security, is a principal investment strategy depends on the strategy's anticipated importance in achieving the Fund's investment objectives, and how the strategy affects the Fund's potential risks and returns. In determining what is a principal investment strategy, consider, among other things, the amount of the Fund's assets expected to be committed to the strategy, the amount of the Fund's assets expected to be placed at risk by the strategy, and the likelihood of the Fund's losing some or all of those assets from implementing the strategy.

3. A negative strategy (e.g., a strategy not to invest in a particular type of security or not to borrow money) is not a principal investment strategy.

4. Disclose any policy to concentrate in securities of issuers in a particular industry or group of industries (i.e., investing more than 25% of a Fund's net assets in a particular industry or group of industries).

5. Disclose any other policy specified in Item 12(c)(1) that is a principal investment strategy of the Fund.

6. Disclose, if applicable, that the Fund may, from time to time, take temporary defensive positions that are inconsistent with the Fund's principal investment strategies in attempting to respond to adverse market, economic, political, or other conditions. Also disclose the effect of taking such a temporary defensive position (e.g., that the Fund may not achieve its investment objective).

7. Disclose whether the Fund (if not a Money Market Fund) may engage in active and frequent trading of portfolio securities to achieve its principal investment strategies. If so, explain the tax consequences to shareholders of increased portfolio turnover, and how the tax consequences of, or trading costs associated with, a Fund's portfolio turnover may affect the Fund's performance.

(2) Explain in general terms how the Fund's adviser decides which securities to buy and sell (e.g., for an equity fund, discuss, if applicable, whether the Fund emphasizes value or growth or blends the two approaches).

(c) *Risks.* Disclose the principal risks of investing in the Fund, including the risks to which the Fund's particular portfolio as a whole is expected to be subject and the circumstances reasonably likely to affect adversely the Fund's net asset value, yield, or total return.

Item 5. Management's Discussion of Fund Performance

Disclose the following information unless the Fund is a Money Market Fund or the information is included in the Fund's latest annual report to shareholders under rule 30d-1 [17 CFR 270.30d-1] and the Fund provides a copy of the annual report, upon request and without charge, to each person to whom a prospectus is delivered:

(a) Discuss the factors that materially affected the Fund's performance during the most recently completed fiscal year, including the relevant market conditions and the investment strategies and techniques used by the Fund's investment adviser.

(b)(1) Provide a line graph comparing the initial and subsequent account values at the end of each of the most recently completed 10 fiscal years of the Fund (or for the life of the Fund, if shorter), but only for periods subsequent to the effective date of the Fund's registration statement. Assume a \$10,000 initial investment at the beginning of the first fiscal year in an appropriate broad-based securities market index for the same period.

(2) In a table placed within or next to the graph, provide the Fund's average annual total returns for the 1-, 5-, and 10-year periods as of the end of the last day of the most recent fiscal year computed in accordance with Item 21(b)(1). Include a statement accompanying the graph to the effect that past performance does not predict future performance.

Instructions.

1. *Line Graph Computation.*

(a) Assume that the initial investment was made at the offering price last calculated on the business day before the first day of the first fiscal year.

(b) Base subsequent account values on the net asset value of the Fund last calculated on the last business day of the first and each subsequent fiscal year.

(c) Calculate the final account value by assuming the account was closed and redemption was at the price last calculated on the last business day of the most recent fiscal year.

(d) Base the line graph on the Fund's required minimum initial investment if that amount exceeds \$10,000.

2. *Sales Load.* Reflect any sales load (or any other fees charged at the time of purchasing shares or opening an account) by beginning the line graph at the amount that actually would be invested (*i.e.*, assume that the maximum sales load, and other charges deducted from payments, is deducted from the initial \$10,000 investment). For a Fund whose shares are subject to a contingent deferred sales load, assume that the deduction of the maximum deferred sales load (or other charges) that would apply for a complete redemption that received the price last calculated on the last business day of the most recent fiscal year. For any other deferred sales load, assume that the deduction in the amount(s) and at the time(s) that the sales load actually would have been deducted.

3. *Dividends and Distributions.* Assume reinvestment of all of the Fund's dividends and distributions on the reinvestment dates during the period, and reflect any sales load imposed upon reinvestment of dividends or distributions or both.

4. *Account Fees.* Reflect recurring fees that are charged to all accounts.

(a) For any account fees that vary with the size of the account, assume a \$10,000 account size.

(b) Reflect, as appropriate, any recurring fees charged to shareholder accounts that are paid other than by redemption of the Fund's shares.

(c) Reflect an annual account fee that applies to more than one Fund by allocating the fee in the following manner: divide the total amount of account fees collected during the year by the Funds' total average net assets, multiply the resulting percentage by the average account value for each Fund and reduce the value of each hypothetical account at the end of each fiscal year during which the fee was charged.

5. *Appropriate Index.* For purposes of this Item, an "appropriate broad-based securities market index" is one that is administered by an organization that is not an affiliated person of the Fund, its investment adviser or principal underwriter, unless the index is widely recognized and used. Adjust the index to reflect the reinvestment of dividends on securities in the index, but do not reflect the expenses of the Fund.

6. *Additional Indexes.* A Fund is encouraged to compare its performance not only to the required broad-based index, but also to other more narrowly based indexes that reflect the market sectors in which the Fund invests. A Fund also may compare its performance to an additional broad-based index, or to a non-securities index (*e.g.*, the Consumer Price Index), so long as the comparison is not misleading.

7. *Change in Index.* If the Fund uses an index that is different from the one used for the immediately preceding fiscal year, explain the reason(s) for the change and compare the Fund's annual change in the value of an investment in the hypothetical account with the new and former indexes.

8. *Other Periods.* The line graph may cover earlier fiscal years and may compare the ending values of interim periods (*e.g.*, monthly or quarterly ending values), so long as those periods are after the effective date of the Fund's registration statement.

9. *Scale.* The axis of the graph measuring dollar amounts may use either a linear or a logarithmic scale.

10. *New Funds.* A New Fund (as defined in Instruction 5 to Item 3) is not required to include the information specified by this Item in its prospectus (or annual report), unless Form N-1A (or the annual report) contains audited financial statements covering a period of at least 6 months.

11. *Change in Investment Adviser.* If the Fund has not had the same investment adviser for the previous 10 fiscal years, the Fund may begin the line graph on the date that the current adviser began to provide advisory services to the Fund so long as:

(a) Neither the current adviser nor any affiliate is or has been in "control" of the previous adviser under section 2(a)(9) [15 U.S.C. 80a-2(a)(9)];

(b) The current adviser employs no officer(s) of the previous adviser or employees of the previous adviser who were responsible for providing investment advisory or portfolio management services to the Fund; and

(c) The graph is accompanied by a statement explaining that previous periods during which the Fund was advised by another investment adviser are not shown.

(d) Discuss the effect of any policy or practice of maintaining a specified level of distributions to shareholders on the Fund's investment strategies and per share net asset value during the last fiscal year. Also discuss the extent to which the Fund's distribution policy resulted in distributions of capital.

Item 6. Management, Organization, and Capital Structure

(a) *Management.*

(1) *Investment Adviser.*

(i) Provide the name and address of each investment adviser of the Fund. Describe the investment adviser's experience as an investment adviser and the advisory services that it provides to the Fund.

(ii) Describe the compensation of each investment adviser of the Fund as follows:

(A) If the Fund has operated for a full fiscal year, state the aggregate fee paid to the adviser for the most recent fiscal year as a percentage of average net assets. If the Fund has not operated for a full fiscal year, state what the adviser's fee is as a percentage of average net assets, including any breakpoints.

(B) If the adviser's fee is not based on a percentage of average net assets (*e.g.*, the adviser receives a performance-based fee), describe the basis of the adviser's compensation.

Instructions.

1. If the Fund changed advisers during the fiscal year, describe the compensation and the dates of service for each adviser.

2. Explain any changes in the basis of computing the adviser's compensation during the fiscal year.

3. If a Fund has more than one investment adviser, disclose the aggregate fee paid to all of the advisers, rather than the fees paid to each adviser, in response to this Item.

(2) *Portfolio Manager.* State the name, title, and length of service of the person or persons employed by or associated with an investment adviser of the Fund (or the Fund), if any, who are primarily responsible for the day-to-day management of the Fund's portfolio. Also state each person's business experience during the past 5 years.

Instructions.

1. This requirement does not apply to a Money Market Fund or to a Fund that has an investment objective to replicate the performance of an index.

2. If a committee, team or other group of persons associated with an investment adviser of the Fund ("Adviser Group") is jointly and primarily responsible for the day-to-day management of the Fund's portfolio, provide disclosure to the effect that the Fund's investments are managed by the Adviser Group; the names of the members of the Adviser Group need not be provided.

3. If the role of the Adviser Group is generally limited to overseeing, approving or ratifying the decisions of an individual(s) who is primarily responsible for the day-to-day management of the Fund, information in response to this Item is required only about the individual(s).

4. If an Adviser Group and an individual(s) share day-to-day responsibility with respect to the Fund, provide disclosure to the effect that the Fund's investments are managed jointly by the Adviser Group and an individual(s) associated with the Fund's adviser; disclosure about the individual(s) contemplated by this Item need be provided only if the individual(s) is primarily responsible for implementing a principal investment strategy of the Fund as that term is defined in the Instruction to Item 4. For example, assume that a Fund has an investment strategy of investing in certain industry sectors, and that the Fund considers the selection of specific investments within those sectors generally not determinative in achieving the Fund's objective. If an Adviser Group was responsible for selecting the sectors in which the Fund invests and an individual was responsible for selecting the Fund's investments within the sectors, the Fund would not be required to disclose the information contemplated by this Item about the individual. If, however, the selection of companies within a certain sector or sectors was central to the Fund's achieving its investment objective, and an individual was responsible for selecting the Fund's investments within the sector or sectors, the Fund would be required to provide the information contemplated by this Item for that individual.

(3) *Legal Proceedings.* Describe any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Fund or the Fund's investment adviser or principal underwriter is a party. Include the name of the court in which the proceedings are pending, the date instituted, the principal parties involved, a description of the factual basis alleged to underlie the proceeding, and the relief sought. Include similar information as to any legal proceedings instituted, or known to be contemplated, by a governmental authority.

Instruction. For purposes of this requirement, legal proceedings are material only to the extent that they are likely to have a material adverse effect on the Fund or the ability of the investment adviser or principal underwriter to perform its contract with the Fund.

(b) *Capital Stock.* Disclose any unique or unusual restrictions on the right freely to retain or dispose of the Fund's shares or material obligations or potential liabilities associated with holding the Fund's shares (not including investment risks) that may expose investors to significant risks.

Item 7. Shareholder Information

(a) *Pricing of Fund Shares.* Describe the procedures for pricing the Fund's shares, including:

(1) An explanation that the price of Fund shares is based on the Fund's net asset value and the method used to value Fund shares (market price, fair value, or amortized cost).

Instruction. If a Fund has a policy that contemplates using fair value pricing under special circumstances (e.g., when an event occurs after the close of the exchange on which the Fund's portfolio securities are principally traded that is likely to have changed the value of the securities), provide a brief explanation of the circumstances and the effects of this policy. If the Fund's policy is to use fair value pricing only when market prices are unavailable, it need not explain the circumstances and the effects of the policy.

(2) A statement as to when calculations of net asset value are made and that the price at which a purchase or redemption is effected is based on the next calculation of net asset value after the order is placed.

(3) A statement identifying in a general manner any national holidays when shares will not be priced and specifying any additional local or regional holidays when the Fund shares will not be priced.

Instructions.

1. In responding to this Item, a Fund may use a list of specific days or any other means that effectively communicates the information (e.g., explaining that shares will not be priced on the days on which the New York Stock Exchange is closed for trading).

2. If the Fund has portfolio securities that are primarily listed on foreign exchanges that trade on weekends or other days when the Fund does not price its shares, disclose that the net asset value of the Fund's shares may change on days when shareholders will not be able to purchase or redeem the Fund's shares.

(b) *Purchase of Fund Shares.* Describe the procedures for purchasing the Fund's shares, including any minimum initial or subsequent investment requirements.

(c) *Redemption of Fund Shares.* Describe the procedures for redeeming the Fund's shares, including:

(1) Any restrictions on redemptions.

(2) Any redemption charges, including how these charges will be collected and under what circumstances the charges will be waived.

(3) If the Fund has reserved the right to redeem in kind.

(4) Any procedure that a shareholder can use to sell the Fund's shares to the Fund or its underwriter through a broker-dealer, noting any charges that may be imposed for such service.

Instruction. The specific fees paid through the broker-dealer for such service need not be disclosed.

(5) The circumstances, if any, under which the Fund may redeem shares automatically without action by the shareholder in accounts below a certain number or value of shares.

(6) The circumstances, if any, under which the Fund may delay honoring a request for redemption for a certain time after a shareholder's investment (e.g., whether a Fund does not process redemptions until clearance of the check for the initial investment).

(7) Any restrictions on, or costs associated with, transferring shares held in street name accounts.

(d) *Dividends and Distributions.* Describe the Fund's policy with respect to dividends and distributions, including any options that shareholders may have as to the receipt of dividends and distributions.

(e) *Tax Consequences.*

(1) Describe the tax consequences to shareholders of buying, holding, exchanging and selling the Fund's shares, including, as applicable, that:

(i) The Fund intends to make distributions that may be taxed as ordinary income and capital gains (which may be taxable at different rates depending on the length of time the Fund holds its assets). If the Fund expects that its distributions, as a result of its investment objectives or strategies, will consist primarily of ordinary income or capital gains, provide disclosure to that effect.

(ii) The Fund's distributions, whether received in cash or reinvested in additional shares of the Fund, may be subject to federal income tax.

(iii) An exchange of the Fund's shares for shares of another fund will be treated as a sale of the Fund's shares and any gain on the transaction may be subject to federal income tax.

(2) For a Fund that holds itself out as investing in securities generating tax-exempt income:

(i) Modify the disclosure required by paragraph (e)(1) to reflect that the Fund intends to distribute tax-exempt income.

(ii) Also disclose, as applicable, that:

(A) The Fund may invest a portion of its assets in securities that generate income that is not exempt from federal or state income tax;

(B) Income exempt from federal tax may be subject to state and local income tax; and

(C) Any capital gains distributed by the Fund may be taxable.

(3) If the Fund does not expect to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code [I.R.C. 851 *et seq.*], explain the tax consequences. If the Fund expects to pay an excise tax under the Internal Revenue Code [I.R.C. 4982] with respect to its distributions, explain the tax consequences.

(f) *Separate Disclosure Document.* A Fund may omit from the prospectus information about purchase and redemption procedures required by Items 7(b)–(d) and 8(a)(2) and provide it in a separate document if the Fund:

(1) Incorporates the separate purchase and redemption document into the prospectus by reference and files the document with Part A of Form N-1A;

(2) Includes a legend on the front cover page of the separate document explaining that the information disclosed is part of, and incorporated in, the prospectus;

(3) Includes a statement on the outside back cover page of the prospectus that the purchase and sale information is provided in a separate document that is incorporated by reference into the prospectus; and

(4) Delivers the separate purchase and redemption document with the prospectus.

Instruction. When delivering multiple prospectuses, all of which incorporate the same separate purchase and sale document by reference, a Fund may deliver a single separate document.

Item 8. Distribution Arrangements

(a) Sales Loads.

(1) Describe any sales loads, including deferred sales loads, applied to purchases of the Fund's shares. Include in a table any front-end sales load (and each breakpoint in the sales load, if any) as a percentage of both the offering price and the net amount invested.

Instructions.

1. If the Fund's shares are sold subject to a front-end sales load, explain that the term "offering price" includes the front-end sales load.

2. Disclose, if applicable, that sales loads are imposed on shares, or amounts representing shares, that are purchased with reinvested dividends or other distributions.

3. Discuss, if applicable, how deferred sales loads are imposed and calculated, including:

(a) Whether the specified percentage of the sales load is based on the offering price, or the lesser of the offering price or net asset value at the time the sales load is paid.

(b) The amount of the sales load as a percentage of both the offering price and the net amount invested.

(c) A description of how the sales load is calculated (e.g., in the case of a partial redemption, whether or not the sales load is calculated as if shares or amounts representing shares not subject to a sales load are redeemed first, and other shares or amounts representing shares are then redeemed in the order purchased).

(d) If applicable, the method of paying an installment sales load (e.g., by withholding of dividend payments, involuntary redemptions, or separate billing of a shareholder's account).

(2) Unless disclosed in response to paragraph (a)(1), in the SAI, or in a separate disclosure document under Item 7(f), describe any other arrangements that result in breakpoints in, or elimination of, sales loads (e.g., letters of intent, accumulation plans, dividend reinvestment plans, withdrawal plans, exchange privileges, employee benefit plans, and redemption reinvestment plans). Identify each class of individuals or transactions to which the arrangements apply and state each different breakpoint as a percentage of both the offering price and the amount invested.

(b) *Rule 12b-1 Fees.* If the Fund has adopted a plan under rule 12b-1, state the amount of the distribution fee payable under the plan and provide disclosure to the following effect:

(1) The Fund has adopted a plan under rule 12b-1 that allows the Fund to pay distribution fees for the sale and distribution of its shares; and

(2) Because these fees are paid out of the Fund's assets on an on-going basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

Instructions. If the Fund pays service fees under its rule 12b-1 plan, modify this disclosure to reflect the payment of these fees (e.g., by indicating that the Fund pays distribution and other fees for the sale of its shares and for services provided to shareholders). For purposes of this paragraph, service fees have the same meaning given that term under rule 2830(b)(9) of the NASD Conduct Rules [NASD Manual (CCH) 4622].

(c) *Multiple Class and Master-Feeder Funds.*

(1) Describe the main features of the structure of the Multiple Class Fund or Master-Feeder Fund.

(2) If more than one Class of a Multiple Class Fund is offered in the prospectus, provide the information required by paragraphs (a) and (b) for each of those Classes.

(3) If a Multiple Class Fund offers in the prospectus shares that provide for mandatory or automatic conversions or exchanges from one Class to another Class, provide the information required by paragraphs (a) and (b) for both the shares offered and the Class into which the shares may be converted or exchanged.

(4) If a Feeder Fund has the ability to change the Master Fund in which it invests, describe briefly the circumstances under which the Feeder Fund can do so.

Instruction. A Feeder Fund that does not have the authority to change its Master Fund need not disclose the possibility and consequences of its no longer investing in the Master Fund.

Item 9. Financial Highlights Information

(a) Provide the following information for the Fund, or for the Fund and its subsidiaries, audited for at least the latest 5 years and consolidated as required in Regulation S-X [17 CFR 210].

Financial Highlights

The financial highlights table is intended to help you understand the Fund's financial performance for the past 5 years [or, if shorter, the period of the Fund's operations]. Certain information reflects financial results for a single Fund share. The total returns in the table represent the rate that an investor would have earned [or lost] on an investment in the Fund (assuming reinvestment of all dividends and distributions). This information has been audited by _____, whose report, along with the Fund's financial statements, are included in [the SAI or annual report], which is available upon request.

Net Asset Value, Beginning of Period

Income From Investment Operations

Net Investment Income

Net Gains or Losses on Securities (both realized and unrealized)

Total From Investment Operations**Less Distributions**

Dividends (from net investment income)

Distributions (from capital gains)

Returns of Capital

Total Distributions

Net Asset Value, End of Period

Total Return**Ratios/Supplemental Data**

Net Assets, End of Period

Ratio of Expenses to Average Net Assets

Ratio of Net Income to Average Net Assets

Portfolio Turnover Rate

Instructions.**1. General.**

(a) Present the information in comparative columnar form for each of the last 5 fiscal years of the Fund (or for such shorter period as the Fund has been in operation), but only for periods subsequent to the effective date of the Fund's registration statement. Also present the information for the period between the end of the latest fiscal year and the date of the latest balance sheet or statement of assets and liabilities. When a period in the table is for less than a full fiscal year, a Fund may annualize ratios in the table and disclose that the ratios are annualized in a note to the table.

(b) List per share amounts at least to the nearest cent. If the offering price is expressed in tenths of a cent or more, then state the amounts in the table in tenths of a cent. Present the information using a consistent number of decimal places.

(c) Include the narrative explanation before the financial information. A Fund may modify the explanation if the explanation contains comparable information to that shown.

2. Per Share Operating Performance.

(a) Derive net investment income data by adding (deducting) the increase (decrease) per share in undistributed net investment income for the period to (from) dividends from net investment income per share for the period. The increase (decrease) per share may be derived by comparing the per share figures obtained by dividing undistributed net investment income at the beginning and end of the period by the number of shares outstanding on those dates. Other methods of computing net investment income may be acceptable. Provide an explanation in a note to the table of any other method used to compute net investment income.

(b) The amount shown at the Net Gains or Losses on Securities caption is the balancing figure derived from the other amounts in the statement. The amount shown at this caption for a share outstanding throughout the year may not agree with the change in the aggregate gains and losses in the portfolio securities for the year because of the timing of sales and repurchases of the Fund's shares in relation to fluctuating market values for the portfolio.

(c) For any distributions made from sources other than net investment income and capital gains, state the per share amounts separately at the Returns of Capital caption and note the nature of the distributions.

3. Total Return.

(a) Assume an initial investment made at the net asset value calculated on the last business day before the first day of each period shown.

(b) Do not reflect sales loads or account fees in the initial investment, but, if sales loads or account fees are imposed, note that they are not reflected in total return.

(c) Reflect any sales load assessed upon reinvestment of dividends or distributions.

(d) Assume a redemption at the price calculated on the last business day of each period shown.

(e) For a period less than a full fiscal year, state the total return for the period and disclose that total return is not annualized in a note to the table.

4. Ratios/Supplemental Data.

(a) Calculate "average net assets" based on the value of the net assets determined no less frequently than the end of each month. (b) Calculate the Ratio of Expenses to Average Net Assets using the amount of expenses shown in the Fund's statement of operations for the relevant fiscal period, including increases resulting from complying with paragraph 2(g) of rule 6-07 of Regulation S-X and reductions resulting from complying with paragraphs 2(a) and (f) of rule 6-07 regarding fee waivers and reimbursements. If a change in the methodology for determining the ratio of expenses to average net assets results from applying paragraph 2(g) of rule 6-07, explain in a note that the ratio reflects fees paid with brokerage commissions and fees reduced in connection with specific agreements only for periods ending after September 1, 1995.

(c) A Fund that is a Money Market Fund may omit the Portfolio Turnover Rate.

(d) Calculate the Portfolio Turnover Rate as follows:

(i) Divide the lesser of amounts of purchases or sales of portfolio securities for the fiscal year by the monthly average of the value of the portfolio securities owned by the Fund during the fiscal year. Calculate the monthly average by totaling the values of portfolio securities as of the beginning and end of the first month of the fiscal year and as of the end of each of the succeeding 11 months and dividing the sum by 13.

(ii) Exclude from both the numerator and the denominator amounts relating to all securities, including options, whose maturities or expiration dates at the time of acquisition were one year or less. Include all long-term securities, including long-term U.S. Government securities. Purchases include any cash paid upon the conversion of one portfolio security into another and the cost of rights or warrants. Sales include net proceeds of the sale of rights and warrants and net proceeds of portfolio securities that have been called or for which payment has been made through redemption or maturity.

(iii) If the Fund acquired the assets of another investment company or of a personal holding company in exchange for its own shares during the fiscal year in a purchase-of-assets transaction, exclude the value of securities acquired from purchases and securities sold from sales to realign the Fund's portfolio. Adjust the denominator of the portfolio turnover computation to reflect these excluded purchases and sales and disclose them in a footnote.

(iv) Include in purchases and sales any short sales that the Fund intends to maintain for more than one year and put and call options with expiration dates more than one year from the date of acquisition. Include proceeds from a short sale in the value of the portfolio securities sold during the period; include the cost of covering a short sale in the value of portfolio securities purchased during the period. Include premiums paid to purchase options in the value of portfolio securities purchased during the reporting period; include premiums received from the sale of options in the value of the portfolio securities sold during the period.

(b) A Fund may incorporate by reference the Financial Highlights Information from a report to shareholders under rule 30d-1 into the prospectus in response to this Item if the Fund delivers the shareholder report with the prospectus or, if the report has been previously delivered (e.g., to a current shareholder), the Fund includes the statement required by Item 1(b)(1).

Part B: Information Required in a Statement of Additional Information:**Item 10. Cover Page and Table of Contents**

(a) *Front Cover Page.* Include the following information on the outside front cover page of the SAI:

(1) The Fund's name and, if the Fund is a Series, also provide the Registrant's name.

(2) A statement or statements:

(i) That the SAI is not a prospectus;

(ii) How the prospectus may be obtained; and

(iii) Whether and from where information is incorporated by reference into the SAI, as permitted by General Instruction D.

Instruction. Any information incorporated by reference into the SAI must be delivered with the SAI unless the information has been previously delivered in a shareholder report (e.g., to a current shareholder), and the Fund states that the shareholder report is available, without charge, upon request. Provide a toll-free (or collect) telephone number to call to request the report.

(3) The date of the SAI and of the prospectus to which the SAI relates.

(b) *Table of Contents.* Include under appropriate captions (and subcaptions) a list of the contents of the SAI and, when useful, provide cross-references to related disclosure in the prospectus.

Item 11. Fund History

(a) Provide the date and form of organization of the Fund and the name of the state or other jurisdiction in which the Fund is organized.

(b) If the Fund has engaged in a business other than that of an investment company during the past 5 years, state the nature of the other business and give the approximate date on which the Fund commenced business as an investment company. If the Fund's name was changed during that period, state its former name and the approximate date on which it was changed. Briefly describe the nature and results of any change in the Fund's business or name that occurred in connection with any bankruptcy, receivership, or similar proceeding, or any other material reorganization, readjustment or succession.

Item 12. Description of the Fund and Its Investments and Risks

(a) *Classification.* State that the Fund is an open-end, management investment company and indicate, if applicable, that the Fund is diversified.

(b) *Investment Strategies and Risks.* Describe any investment strategies, including a strategy to invest in a particular type of security, used by an investment adviser of the Fund in managing the Fund that are not principal strategies and the risks of those strategies.

(c) *Fund Policies.*

(1) Describe the Fund's policy with respect to each of the following:

(i) Issuing senior securities;

(ii) Borrowing money, including the purpose for which the proceeds will be used;

(iii) Underwriting securities of other issuers;

(iv) Concentrating investments in a particular industry or group of industries;

(v) Purchasing or selling real estate or commodities;

(vi) Making loans; and

(vii) Any other policy that the Fund deems fundamental or that may not be changed without shareholder approval, including, if applicable, the Fund's investment objectives.

Instruction. If the Fund reserves freedom of action with respect to any practice specified in paragraph (c)(1), state the maximum percentage of assets to be devoted to the practice and disclose the risks of the practice.

(2) State whether shareholder approval is necessary to change any policy specified in paragraph (c)(1). If so, describe the vote required to obtain this approval.

(d) *Temporary Defensive Position.* Disclose, if applicable, the types of investments that a Fund may make while assuming a temporary defensive position described in response to Item 4(b).

(e) *Portfolio Turnover.* Explain any significant variation in the Fund's portfolio turnover rates over the two most recently completed fiscal years or any anticipated variation in the portfolio turnover rate from that reported for the last fiscal year in response to Item 9.

Instruction. This paragraph does not apply to a Money Market Fund.

Item 13. Management of the Fund

(a) *Board of Directors.* Briefly describe the responsibilities of the board of directors with respect to the Fund's management.

Instruction. A Fund may respond to this paragraph by providing a general statement as to the responsibilities of the board of directors with respect to the Fund's management under the applicable laws of the state or other jurisdiction in which the Fund is organized.

(b) *Management Information.* Provide the information required by the following table for each director and officer of the Fund, and, if the Fund has an advisory board, for each member of the board. Explain in a footnote to the table any family relationship between persons listed.

(1) Name, address, and age	(2) Position(s) held with fund	(3) Principal occupa- tion(s) during past 5 years

Instructions.

1. For purposes of this paragraph, the term "officer" means the president, vice-president, secretary, treasurer, controller, and any other officers who perform policy-making functions for the Fund. The term "family relationship" means any relationship by blood, marriage, or adoption, not more remote than first cousin.

2. State the principal business of any corporation or other organization listed under column (3) unless the principal business is implicit in its name.

3. Identify members of any executive or investment committee, and provide a concise statement of the duties and functions of each committee.

4. Indicate with an asterisk the directors who are interested persons.

(c) For each individual listed in column (1) of the table required by paragraph (b), describe any positions held with affiliated persons or principal underwriters of the Fund.

Instruction. When an individual holds the same position(s) with two or more registered investment companies that are part of a "Fund Complex" as that term is defined in Item 22(a) of Schedule 14A under the Securities Exchange Act [17 CFR 240.14a-101], the Fund may, rather than listing each investment company, identify the Fund Complex and provide the number of positions held.

(d) *Compensation.* For all directors of the Fund and for all members of any advisory board who receive compensation from the Fund, and for each of the three highest paid executive officers or any affiliated person of the Fund who received aggregate compensation from the Fund for the most recently completed fiscal year exceeding \$60,000 ("Compensated Persons"):

(1) Provide the information required by the following table:

COMPENSATION TABLE

(1) Name of person, position	(2) Aggregate compensation from fund	(3) Pension or retirement ben- efits accrued as part of fund expenses	(4) Estimated annual benefits upon retirement	(5) Total compensation from fund and fund complex paid to directors

Instructions.

1. For column (1), indicate, as necessary, the capacity in which the remuneration is received. For Compensated Persons who are directors of the Fund, compensation is amounts received for service as a director.
2. If the Fund has not completed its first full year since its organization, provide the information for the current fiscal year, estimating future payments that would be made under an existing agreement or understanding. Disclose in a footnote to the Compensation Table the period for which the information is given.
3. Include in column (2) amounts deferred at the election of the Compensated Person, whether under a plan established under section 401(k) of the Internal Revenue Code [I.R.C. 401(k)] or otherwise, for the fiscal year in which earned. Disclose in a footnote to the Compensation Table the total amount of deferred compensation (including interest) payable to or accrued for any Compensated Person.
4. Include in columns (3) and (4) all pension or retirement benefits proposed to be paid under any existing plan in the event of retirement at normal retirement date, directly or indirectly, by the Fund, any of its subsidiaries, or other investment companies in the Fund Complex. Omit column (4) when retirement benefits are not determinable.
5. For any defined benefit or actuarial plan under which benefits are determined primarily by final compensation (or average final compensation) and years of service, provide the information required in column (4) in a separate table showing estimated annual benefits payable upon retirement (including amounts attributable to any defined benefit supplementary or excess pension award plans) in specified compensation and years of service classifications. Also provide the estimated credited years of service for each Compensated Person.
6. Include in column (5) only aggregate compensation paid to a director for service on the board and all other boards of investment companies in a Fund Complex specifying the number of any other investment companies.
- (2) Describe briefly the material provisions of any pension, retirement, or other plan or any arrangement, other than fee arrangements disclosed in paragraph (d)(1), under which the Compensated Persons are or may be compensated for services provided, including amounts paid, if any, to the Compensated Person under these arrangements during the most recently completed fiscal year. Specifically include the criteria used to determine amounts payable under the plan, the length of service or vesting period required by the plan, the retirement age or other event that gives rise to payment under the plan, and whether the payment of benefits is secured or funded by the Fund.
- (e) *Sales Loads.* Disclose any arrangements that result in breakpoints in, or elimination of, sales loads for directors and other affiliated persons of the Fund. Identify each class of individuals and transactions to which the arrangements apply and state each different breakpoint as a percentage of both the offering price and the net amount invested of the Fund's shares. Explain, as applicable, the reasons for the difference in the price at which securities are offered generally to the public, and the prices at which securities are offered to directors and other affiliated persons of the Fund.

Item 14. Control Persons and Principal Holders of Securities

Provide the following information as of a specified date no more than 30 days prior to the date of filing the registration statement or an amendment.

(a) *Control Persons.* State the name and address of each person who controls the Fund and explain the effect of that control on the voting rights of other security holders. For each control person, state the percentage of the Fund's voting securities owned or any other basis of control. If the control person is a company, give the jurisdiction under the laws of which it is organized. List all parents of the control person.

Instruction. For purposes of this paragraph, "control" means (i) the beneficial ownership, either directly or through one or more controlled companies, of more than 25% of the voting securities of a company; (ii) the acknowledgment or assertion by either the controlled or controlling party of the existence of control; or (iii) an adjudication under section 2(a)(9), which has become final, that control exists.

(b) *Principal Holders.* State the name, address, and percentage of ownership of each person who owns of record or is known by the Fund to own beneficially 5% or more of any Class of the Fund's outstanding equity securities.

Instructions.

1. Calculate the percentages based on the amount of securities outstanding.
 2. If securities are being registered under or in connection with a plan of acquisition, reorganization, readjustment or succession, indicate, as far as practicable, the ownership that would result from consummation of the plan based on present holdings and commitments.
 3. Indicate whether the securities are owned of record, beneficially, or both. Show the respective percentage owned in each manner.
- (c) *Management Ownership.* State the percentage of the Fund's equity securities owned by all officers, directors, and members of any advisory board of the Fund as a group. If the amount owned by directors and officers as a group is less than 1% of the Class, provide a statement to that effect.

Item 15. Investment Advisory and Other Services

(a) *Investment Advisers.* Disclose the following information with respect to each investment adviser:

(1) The name of any person who controls the adviser, the basis of the person's control, and the general nature of the person's business. Also disclose, if material, the business history of any organization that controls the adviser.

(2) The name of any affiliated person of the Fund who also is an affiliated person of the adviser, and a list of all capacities in which the person is affiliated with the Fund and with the adviser.

Instruction. If an affiliated person of the Fund alone or together with others controls the adviser, state that fact. It is not necessary to provide the amount or percentage of the outstanding voting securities owned by the controlling person.

(3) The method of calculating the advisory fee payable by the Fund including:

(i) The total dollar amounts that the Fund paid to the adviser (aggregated with amounts paid to affiliated advisers, if any), and any advisers who are not affiliated persons of the adviser, under the investment advisory contract for the last three fiscal years;

- (ii) If applicable, any credits that reduced the advisory fee for any of the last three fiscal years; and
- (iii) Any expense limitation provision.

Instructions.

1. If the advisory fee payable by the Fund varies depending on the Fund's investment performance in relation to a standard, describe the standard along with a fee schedule in tabular form. The Fund may include examples showing the fees that the adviser would earn at various levels of performance as long as the examples include calculations showing the maximum and minimum fee percentages that could be earned under the contract.

2. State separately each type of credit or offset.

3. When a Fund is subject to more than one expense limitation provision, describe only the most restrictive provision.

4. For a Registrant with more than one Series, or a Multiple Class Fund, describe the methods of allocation and payment of advisory fees for each Series or Class.

(b) *Principal Underwriter.* State the name and principal business address of any principal underwriter for the Fund. Disclose, if applicable, that an affiliated person of the Fund is an affiliated person of the principal underwriter and identify the affiliated person.

(c) *Services Provided by Each Investment Adviser and Fund Expenses Paid by Third Parties.*

(1) Describe all services performed for or on behalf of the Fund supplied or paid for wholly or in substantial part by each investment adviser.

(2) Describe all fees, expenses, and costs of the Fund that are to be paid by persons other than an investment adviser or the Fund, and identify those persons.

(d) *Service Agreements.* Summarize the substantive provisions of any other management-related service contract that may be of interest to a purchaser of the Fund's shares, under which services are provided to the Fund, indicating the parties to the contract, and the total dollars paid and by whom for the past three years.

Instructions.

1. The term "management-related service contract" includes any contract with the Fund to keep, prepare, or file accounts, books, records, or other documents required under federal or state law, or to provide any similar services with respect to the daily administration of the Fund, but does not include the following:

(a) Any contract with the Fund to provide investment advice;

(b) Any agreement with the Fund to perform as custodian, transfer agent, or dividend-paying agent for the Fund; and

(c) Any contract with the Fund for outside legal or auditing services, or contract for personal employment entered into with the Fund in the ordinary course of business.

2. No information need be given in response to this paragraph with respect to the service of mailing proxies or periodic reports to the Fund's shareholders.

3. In summarizing the substantive provisions of any management-related service contract, include the following:

(a) The name of the person providing the service;

(b) The direct or indirect relationships, if any, of the person with the Fund, an investment adviser of the Fund or the Fund's principal underwriter; and

(c) The nature of the services provided, and the basis of the compensation paid for the services for the last three fiscal years.

(e) *Other Investment Advice.* If any person (other than a director, officer, member of an advisory board, employee, or investment adviser of the Fund), through any understanding, whether formal or informal, regularly advises the Fund or the Fund's investment adviser with respect to the Fund's investing in, purchasing, or selling securities or other property, or has the authority to determine what securities or other property should be purchased or sold by the Fund, and receives direct or indirect remuneration, provide the following information:

(1) The person's name;

(2) A description of the nature of the arrangement, and the advice or information provided; and

(3) Any remuneration (including, for example, participation, directly or indirectly, in commissions or other compensation paid in connection with transactions in the Fund's portfolio securities) paid for the advice or information, and a statement as to how the remuneration was paid and by whom it was paid for the last three fiscal years.

Instruction. Do not include information for the following:

(a) Persons who advised the investment adviser or the Fund solely through uniform publications distributed to subscribers;

(b) Persons who provided the investment adviser or the Fund with only statistical and other factual information, advice about economic factors and trends, or advice as to occasional transactions in specific securities, but without generally advising about the purchase or sale of securities by the Fund;

(c) A company that is excluded from the definition of "investment adviser" of an investment company under section 2(a)(20)(iii) [15 U.S.C. 80a-2(a)(20)(iii)];

(d) Any person the character and amount of whose compensation for these services must be approved by a court; or

(e) Other persons as the Commission has by rule or order determined not to be an "investment adviser" of an investment company.

(f) *Dealer Reallowances.* Disclose any front-end sales load reallocated to dealers as a percentage of the offering price of the Fund's shares.

(g) *Rule 12b-1 Plans.* If the Fund has adopted a plan under rule 12b-1, describe the material aspects of the plan, and any agreements relating to the implementation of the plan, including:

(1) A list of the principal types of activities for which payments are or will be made, including the dollar amount and the manner in which amounts paid by the Fund under the plan during the last fiscal year were spent on:

(i) Advertising;

(ii) Printing and mailing of prospectuses to other than current shareholders;

(iii) Compensation to underwriters;

(iv) Compensation to broker-dealers;

(v) Compensation to sales personnel;

(vi) Interest, carrying, or other financing charges; and

(vii) Other (specify).

(2) The relationship between amounts paid to the distributor and the expenses that it incurs (e.g., whether the plan reimburses the distributor only for expenses incurred or compensates the distributor regardless of its expenses).

(3) The amount of any unreimbursed expenses incurred under the plan in a previous year and carried over to future years, in dollars and as a percentage of the Fund's net assets on the last day of the previous year.

(4) Whether the Fund participates in any joint distribution activities with another Series or investment company. If so, disclose, if applicable, that fees paid under the Fund's rule 12b-1 plan may be used to finance the distribution of the shares of another Series or investment company, and state the method of allocating distribution costs (e.g., relative net asset size, number of shareholder accounts).

(5) Whether any of the following persons had a direct or indirect financial interest in the operation of the plan or related agreements:

(i) Any interested person of the Fund; or

(ii) Any director of the Fund who is not an interested person of the Fund.

(6) The anticipated benefits to the Fund that may result from the plan.

(h) *Other Service Providers.*

- (1) Unless disclosed in response to paragraph (d), identify any person who provides significant administrative or business affairs management services for the Fund (e.g., an "administrator"), describe the services provided, and the compensation paid for the services.
- (2) State the name and principal business address of the Fund's transfer agent and the dividend-paying agent.
- (3) State the name and principal business address of the Fund's custodian and independent public accountant and describe generally the services performed by each. If the Fund's portfolio securities are held by a person other than a commercial bank, trust company, or depository registered with the Commission as custodian, state the nature of the business of that person or persons.
- (4) If an affiliated person of the Fund, or an affiliated person of the affiliated person, acts as custodian, transfer agent, or dividend-paying agent for the Fund, describe the services that the person performs and the basis for remuneration.

Item 16. Brokerage Allocation and Other Practices

(a) *Brokerage Transactions.* Describe how transactions in portfolio securities are effected, including a general statement about brokerage commissions, markups, and markdowns on principal transactions and the aggregate amount of any brokerage commissions paid by the Fund during its three most recent fiscal years. If, during either of the two years preceding the Fund's most recent fiscal year, the aggregate dollar amount of brokerage commissions paid by the Fund differed materially from the amount paid during the most recent fiscal year, state the reason(s) for the difference(s).

(b) *Commissions.*

(1) Identify, disclose the relationship, and state the aggregate dollar amount of brokerage commissions paid by the Fund during its three most recent fiscal years to any broker:

- (i) That is an affiliated person of the Fund or an affiliated person of that person; or
- (ii) An affiliated person of which is an affiliated person of the Fund, its investment adviser, or principal underwriter.

(2) For each broker identified in response to paragraph (b)(1), state:

- (i) The percentage of the Fund's aggregate brokerage commissions paid to the broker during the most recent fiscal year; and
- (ii) The percentage of the Fund's aggregate dollar amount of transactions involving the payment of commissions effected through the broker during the most recent fiscal year.

(3) State the reasons for any material difference in the percentage of brokerage commissions paid to, and the percentage of transactions effected through, a broker disclosed in response to paragraph (b)(1).

(c) *Brokerage Selection.* Describe how the Fund will select brokers to effect securities transactions for the Fund and how the Fund will evaluate the overall reasonableness of brokerage commissions paid, including the factors that the Fund will consider in making these determinations.

Instructions.

1. If the Fund will consider the receipt of products or services other than brokerage or research services in selecting brokers, specify those products and services.

2. If the Fund will consider the receipt of research services in selecting brokers, identify the nature of those research services.

3. State whether persons acting on the Fund's behalf are authorized to pay a broker a higher brokerage commission than another broker might have charged for the same transaction in recognition of the value of (a) brokerage or (b) research services provided by the broker.

4. If applicable, explain that research services provided by brokers through which the Fund effects securities transactions may be used by the Fund's investment adviser in servicing all of its accounts and that not all of these services may be used by the adviser in connection with the Fund. If other policies or practices are applicable to the Fund with respect to the allocation of research services provided by brokers, explain those policies and practices.

(d) *Directed Brokerage.* If, during the last fiscal year, the Fund or its investment adviser, through an agreement or understanding with a broker, or otherwise through an internal allocation procedure, directed the Fund's brokerage transactions to a broker because of research services provided, state the amount of the transactions and related commissions.

(e) *Regular Broker-Dealers.* If the Fund has acquired during its most recent fiscal year or during the period of time since organization, whichever is shorter, securities of its regular brokers or dealers as defined in rule 10b-1 [17 CFR 270.10b-1] or of their parents, identify those brokers or dealers and state the value of the Fund's aggregate holdings of the securities of each issuer as of the close of the Fund's most recent fiscal year.

Instruction. The Fund need only disclose information about an issuer that derived more than 15% of its gross revenues from the business of a broker, a dealer, an underwriter, or an investment adviser during its most recent fiscal year.

Item 17. Capital Stock and Other Securities

(a) *Capital Stock.* For each class of capital stock of the Fund, provide:

- (1) The title of each class; and
- (2) A full discussion of the following provisions or characteristics of each class, if applicable:
 - (i) Restrictions on the right freely to retain or dispose of the Fund's shares;
 - (ii) Material obligations or potential liabilities associated with owning the Fund's shares (not including investment risks);
 - (iii) Dividend rights;
 - (iv) Voting rights (including whether the rights of shareholders can be modified by other than a majority vote);
 - (v) Liquidation rights;
 - (vi) Preemptive rights;
 - (vii) Conversion rights;
 - (viii) Redemption provisions;
 - (ix) Sinking fund provisions; and
 - (x) Liability to further calls or to assessment by the Fund.

Instructions.

1. If any class described in response to this paragraph possesses cumulative voting rights, disclose the existence of those rights and explain the operation of cumulative voting.

2. If the rights evidenced by any class described in response to this paragraph are materially limited or qualified by the rights of any other class, explain those limitations or qualifications.

(b) *Other Securities.* Describe the rights of any authorized securities of the Fund other than capital stock. If the securities are subscription warrants or rights, state the title and amount of securities called for, and the period during which and the prices at which the warrants or rights are exercisable.

Item 18. Purchase, Redemption, and Pricing of Shares

(a) *Purchase of Shares.* Describe how the Fund's shares are offered to the public. Include any special purchase plans or methods not described in the prospectus or elsewhere in the SAI, including letters of intent, accumulation plans, withdrawal plans, exchange privileges, and services in connection with retirement plans.

Instruction. A Fund may incorporate the information required by Item 18(a) into the SAI by reference to a separate disclosure document that may be provided to investors with the SAI or separately, in response to investor requests. File the separate document, if any, with Part B of Form N-1A.

(b) *Fund Reorganizations.* Disclose any arrangements that result in breakpoints in, or elimination of, sales loads in connection with the terms of a merger, acquisition, or exchange offer made under a plan of reorganization. Identify each class of individuals

to which the arrangements apply and state each different sales load available as a percentage of both the offering price and the net amount invested.

(c) *Offering Price.* Describe the method followed or to be followed by the Fund in determining the total offering price at which its shares may be offered to the public and the method(s) used to value the Fund's assets.

Instructions.

1. Describe the valuation procedure(s) that the Fund uses in determining the net asset value and public offering price of its shares.

2. Explain how the excess of the offering price over the net amount invested is distributed among the Fund's principal underwriters or others and the basis for determining the total offering price.

3. Explain the reasons for any difference in the price at which securities are offered generally to the public, and the prices at which securities are offered for any class of transactions or to any class of individuals.

4. Unless provided as a continuation of the balance sheet in response to Item 22, include a specimen price-make-up sheet showing how the Fund calculates the total offering price per unit. Base the calculation on the value of the Fund's portfolio securities and other assets and its outstanding securities as of the date of the balance sheet filed by the Fund.

(d) *Redemption in Kind.* If the Fund has received an order of exemption from section 18(f) or has filed a notice of election under rule 18f-1 that has not been withdrawn, describe the nature, extent, and effect of the exemptive relief or notice.

Item 19. Taxation of the Fund

(a) If applicable, state that the Fund is qualified or intends to qualify under Subchapter M of the Internal Revenue Code. Disclose the consequences to the Fund if it does not qualify under Subchapter M.

(b) Disclose any special or unusual tax aspects of the Fund, such as taxation resulting from foreign investment or from status as a personal holding company, or any tax loss carry-forward to which the Fund may be entitled.

Item 20. Underwriters

(a) *Distribution of Securities.* For each principal underwriter distributing securities of the Fund, state:

(1) The nature of the obligation to distribute the Fund's securities;

(2) Whether the offering is continuous; and

(3) The aggregate dollar amount of underwriting commissions and the amount retained by the principal underwriter for each of the Fund's last three fiscal years.

(b) *Compensation.* Provide the information required by the following table with respect to all commissions and other compensation received by each principal underwriter, who is an affiliated person of the Fund or an affiliated person of that affiliated person, directly or indirectly, from the Fund during the Fund's most recent fiscal year:

(1) Name of principal underwriter	(2) Net underwriting discounts and commissions	(3) Compensation on redemptions and repurchases	(4) Brokerage commissions	(5) Other compensation

Instruction. Disclose in a footnote to the table the type of services rendered in consideration for the compensation listed under column (5).

(c) *Other Payments.* With respect to any payments made by the Fund to an underwriter or dealer in the Fund's shares during the Fund's last fiscal year, disclose the name and address of the underwriter or dealer, the amount paid and basis for determining that amount, the circumstances surrounding the payments, and the consideration received by the Fund. Do not include information about:

(1) Payments made through deduction from the offering price at the time of sale of securities issued by the Fund;

(2) Payments representing the purchase price of portfolio securities acquired by the Fund;

(3) Commissions on any purchase or sale of portfolio securities by the Fund; or

(4) Payments for investment advisory services under an investment advisory contract.

Instructions.

1. Do not include in response to this paragraph information provided in response to paragraph (b) or with respect to service fees under the Instruction to Item 8(b)(2). Do not include any payment for a service excluded by Instructions 1 and 2 to Item 15(d) or by Instruction 2 to Item 30.

2. If the payments were made under an arrangement or policy applicable to dealers generally, describe only the arrangement or policy.

Item 21. Calculation of Performance Data

(a) *Money Market Funds.* If a Money Market Fund advertises a yield quotation(s), disclose, as applicable, the yield quotation(s) calculated according to paragraphs (a)(1)–(4). Use the same calculations for a yield quotation(s) included in the prospectus.

(1) *Yield Quotation.* Based on the 7 days ended on the date of the most recent balance sheet included in the registration statement, calculate the Fund's yield by determining the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical pre-existing account having a balance of one share at the beginning of the period, subtracting a hypothetical charge reflecting deductions from shareholder accounts, and dividing the difference by the value of the account at the beginning of the base period to obtain the base period return, and then multiplying the base period return by (365/7) with the resulting yield figure carried to at least the nearest hundredth of one percent.

(2) *Effective Yield Quotation.* Based on the 7 days ended on the date of the most recent balance sheet included in the registration statement, calculate the Fund's effective yield, carried to at least the nearest hundredth of one percent, by determining the net change, exclusive of capital changes, in the value of a hypothetical pre-existing account having a balance of one share at the beginning of the period, subtracting a hypothetical charge reflecting deductions from shareholder accounts, and dividing the difference by the value of the account at the beginning of the base period to obtain the base period return, and then compounding the base period return by adding 1, raising the sum to a power equal to 365 divided by 7, and subtracting 1 from the result, according to the following formula:

$$\text{EFFECTIVE YIELD} = [(\text{BASE PERIOD RETURN} + 1)^{365/7}] - 1.$$

(3) *Tax Equivalent Current Yield Quotation.* Calculate the Fund's tax equivalent current yield by dividing that portion of the Fund's yield (as calculated under paragraph (a)(1)) that is tax-exempt by 1 minus a stated income tax rate and adding the quotient to that portion, if any, of the Fund's yield that is not tax-exempt.

(4) *Tax Equivalent Effective Yield Quotation.* Calculate the Fund's tax equivalent effective yield by dividing that portion of the Fund's effective yield (as calculated under paragraph (a)(2)) that is tax-exempt by 1 minus a stated income tax rate and adding the quotient to that portion, if any, of the Fund's effective yield that is not tax-exempt.

(5) State:

- (i) The length of and the last day in the base period used in calculating the quotation(s);
- (ii) A description of the method(s) by which the yield quotation(s) is calculated; and
- (iii) The income tax rate used in the calculation, if applicable.

Instructions.

1. When calculating yield or effective yield quotations, the calculation of net change in account value must include:

(a) The value of additional shares purchased with dividends from the original share and dividends declared on both the original shares and additional shares; and

(b) All fees, other than nonrecurring account or sales charges, that are imposed on all shareholder accounts in proportion to the length of the base period. For any account fees that vary with the size of the account, assume an account size equal to the Fund's mean (or median) account size.

2. Exclude realized gains and losses from the sale of securities and unrealized appreciation and depreciation from the calculation of yield and effective yield. Exclude income other than investment income.

3. Disclose the amount or specific rate of any nonrecurring account or sales charges not included in the calculation of the yield.

4. If the Fund holds itself out as distributing income that is exempt from federal, state, or local income taxation, in calculating yield and effective yield (but not tax equivalent yield or tax equivalent effective yield), reduce the yield quoted by the effect of any income taxes on the shareholder receiving dividends, using the maximum rate for individual income taxation. For example, if the Fund holds itself out as distributing income exempt from federal taxation and the income taxes of State A, but invests in some securities of State B, it must reduce its yield by the effect of state income taxes that must be paid by the residents of State A on that portion of the income attributable to the securities of State B.

(b) *Other Funds.* If the Fund advertises performance data, disclose, as applicable, the performance information calculated according to paragraphs (b)(1)–(4). Use the same calculations for performance information included in the prospectus.

(1) *Average Annual Total Return Quotation.* For the 1-, 5-, and 10-year periods ended on the date of the most recent balance sheet included in the registration statement (or for the periods the Fund has been in operation), calculate the Fund's average annual total return by finding the average annual compounded rates of return over the 1-, 5-, and 10-year periods (or for the periods of the Fund's operations) that would equate the initial amount invested to the ending redeemable value, according to the following formula:

$$P(1+T)^n = \text{ERV}$$

Where:

P = a hypothetical initial payment of \$1,000.

T = average annual total return.

n = number of years.

ERV = ending redeemable value of a hypothetical \$1,000 payment made at the beginning of the 1-, 5-, or 10-year periods at the end of the 1-, 5-, or 10-year periods (or fractional portion).

Instructions.

1. Assume the maximum sales load (or other charges deducted from payments) is deducted from the initial \$1,000 payment. If shareholders are assessed a deferred sales load, assume the maximum deferred sales load is deducted at the times, in the amounts, and under the terms disclosed in the prospectus.

2. Assume all dividends and distributions by the Fund are reinvested at the price stated in the prospectus (including any sales load imposed upon reinvestment of dividends) on the reinvestment dates during the period.

3. Include all recurring fees that are charged to all shareholder accounts. For any account fees that vary with the size of the account, assume an account size equal to the Fund's mean (or median) account size. Reflect, as appropriate, any recurring fees charged to shareholder accounts that are paid other than by redemption of the Fund's shares.

4. Determine the ending redeemable value by assuming a complete redemption at the end of the 1-, 5-, or 10-year periods and the deduction of all nonrecurring charges deducted at the end of each period.

5. State the total return quotation to the nearest hundredth of one percent.

6. Total return information in the prospectus need only be current to the end of the Fund's most recent fiscal year.

(2) *Yield Quotation.* Based on a 30-day (or one month) period ended on the date of the most recent balance sheet included in the registration statement, calculate the Fund's yield by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period, according to the following formula:

$$\text{YIELD} = 2 \left[\left(\frac{a - b}{cd} + 1 \right)^6 - 1 \right]$$

Where:

a = dividends and interest earned during the period.

b = expenses accrued for the period (net of reimbursements).

c = the average daily number of shares outstanding during the period that were entitled to receive dividends.

d = the maximum offering price per share on the last day of the period.

Instructions.

1. To calculate interest earned on debt obligations for purposes of "a" above:

(a) Calculate the yield to maturity of each obligation held by the Fund based on the market value of the obligation (including actual accrued interest) at the close of business on the last business day of each month or, with respect to obligations purchased during the month, the purchase price (plus actual accrued interest). The maturity of an obligation with a call provision(s) is the next call date on which the obligation reasonably may be expected to be called, or if none, the maturity date.

(b) Divide the yield to maturity by 360 and multiply the quotient by the market value of the obligation (including actual accrued interest) to determine the interest income on the obligation for each day of the subsequent month that the obligation is in the portfolio. Assume that each month has 30 days.

(c) Total the interest earned on all debt obligations and all dividends accrued on all equity securities during the 30-day (or one month) period. Although the period for calculating interest earned is based on calendar months, a 30-day yield may be calculated by aggregating the daily interest on the portfolio from portions of 2 months. In addition, a Fund may recalculate daily interest income on the portfolio more than once a month.

(d) For a tax-exempt obligation issued without original issue discount and having a current market discount, use the coupon rate of interest in lieu of the yield to maturity. For a tax-exempt obligation with original issue discount in which the discount is based on the current market value and exceeds the then-remaining portion of original issue discount (market discount), base the yield to maturity on the imputed rate of the original issue discount calculation. For a tax-exempt obligation with original issue discount, where the discount based on the current market value is less than the then-remaining portion of original issue discount (market premium), base the yield to maturity on the market value.

2. For discount and premium on mortgage or other receivables-backed obligations that are expected to be subject to monthly payments of principal and interest ("paydowns"):

(a) Account for gain or loss attributable to actual monthly paydowns as an increase or decrease to interest income during the period; and

(b) The Fund may elect:

(i) To amortize the discount and premium on the remaining securities, based on the cost of the securities, to the weighted average maturity date, if the information is available, or to the remaining term of the securities, if the weighted average maturity date is not available; or

(ii) Not to amortize the discount or premium on the remaining securities.

3. Solely for the purpose of calculating yield, recognize dividend income by accruing 1/360 of the stated dividend rate of the security each day that the security is in the portfolio.

4. Do not use equalization accounting in calculating yield.

5. Include expenses accrued under a plan adopted under rule 12b-1 in the expenses accrued for the period. Reimbursement accrued under the plan may reduce the accrued expenses, but only to the extent the reimbursement does not exceed expenses accrued for the period.

6. Include in the expenses accrued for the period all recurring fees that are charged to all shareholder accounts in proportion to the length of the base period. For any account fees that vary with the size of the account, assume an account size equal to the Fund's mean (or median) account size.

7. If a broker-dealer or an affiliate of the broker-dealer (as defined in rule 1-02(b) of Regulation S-X [17 CFR 210.1-02(b)]) has, in connection with directing the Fund's brokerage transactions to the broker-dealer, provided, agreed to provide, paid for, or agreed to pay for, in whole or in part, services provided to the Fund (other than brokerage and research services as those terms are used in section 28(e) of the Securities Exchange Act [15 U.S.C. 78bb(e)]), add to expenses accrued for the period an estimate of additional amounts that would have been accrued for the period if the Fund had paid for the services directly in an arm's length transaction.

8. Undeclared earned income, calculated in accordance with generally accepted accounting principles, may be subtracted from the maximum offering price. Undeclared earned income is the net investment income that, at the end of the base period, has not been declared as a dividend, but is reasonably expected to be and is declared as a dividend shortly thereafter.

9. Disclose the amount or specific rate of any nonrecurring account or sales charges.

10. If, in connection with the sale of the Fund's shares, a deferred sales load payable in installments is imposed, the "maximum public offering price" includes the aggregate amount of the installments ("installment load amount").

(3) *Tax Equivalent Yield Quotation.* Based on a 30-day (or one month) period ended on the date of the most recent balance sheet included in the registration statement, calculate the Fund's tax equivalent yield by dividing that portion of the Fund's yield (as calculated under paragraph (b)(2)) that is tax-exempt by 1 minus a stated income tax rate and adding the quotient to that portion, if any, of the Fund's yield that is not tax-exempt.

(4) *Non-Standardized Performance Quotation.* A Fund may calculate performance using any other historical measure of performance (not subject to any prescribed method of computation) if the measurement reflects all elements of return.

(5) State:

(i) The length of and the last day in the base period used in calculating the quotation(s);

(ii) A description of the method(s) by which the performance data is calculated; and

(iii) The income tax rate used in the calculation, if applicable.

Item 22. Financial Statements

(a) *Registration Statement.* Include, in a separate section following the responses to the preceding Items, the financial statements and schedules required by Regulation S-X. The specimen price-make-up sheet required by Instruction 4 to Item 18(c) may be provided as a continuation of the balance sheet specified by Regulation S-X.

Instructions.

1. The statements of any subsidiary that is not a majority-owned subsidiary required by Regulation S-X may be omitted from Part B and included in Part C.

2. In addition to the requirements of rule 3-18 of Regulation S-X [17 CFR 210.3-18], any Fund registered under the Investment Company Act that has not previously had an effective registration statement under the Securities Act must include in its initial registration statement under the Securities Act any additional financial statements and condensed financial information (which need not be audited) necessary to make the financial statements and condensed financial information included in the registration statement current as of a date within 90 days prior to the date of filing.

(b) *Annual Report.* Every annual report to shareholders required under rule 30d-1 must contain the following:

(1) The audited financial statements required, and for the periods specified, by Regulation S-X.

(2) The condensed financial information required by Item 9(a) with at least the most recent fiscal year audited.

(3) Unless shown elsewhere in the report as part of the financial statements required by paragraph (b)(1), the aggregate remuneration paid by the Fund during the period covered by the report to:

(i) All directors and all members of any advisory board for regular compensation;

(ii) Each director and each member of an advisory board for special compensation;

(iii) All officers; and

(iv) Each person of whom any officer or director of the Fund is an affiliated person.

(4) The information concerning changes in and disagreements with accountants and on accounting and financial disclosure required by Item 304 of Regulation S-K [17 CFR 229.304].

(c) *Semi-Annual Report.* Every semi-annual report to shareholders required by rule 30d-1 must contain the following information (which need not be audited):

(1) The financial statements required by Regulation S-X for the period commencing either with:

(i) The beginning of the Fund's fiscal year (or date of organization, if newly organized); or

(ii) A date not later than the date after the close of the period included in the last report under rule 30d-1 and the most recent preceding fiscal year.

(2) The condensed financial information required by Item 9(a), for the period of the report as specified by paragraph (c)(1), and the most recent preceding fiscal year.

(3) Unless shown elsewhere in the report as part of the financial statements required by paragraph (c)(1), the aggregate remuneration paid by the Fund during the period covered by the report to the persons specified under paragraph (b)(3).

(4) The information concerning changes in and disagreements with accountants and on accounting and financial disclosure required by Item 304 of Regulation S-K.

Part C: Other Information

Item 23. Exhibits

Subject to General Instruction D regarding incorporation by reference and rule 483 under the Securities Act [17 CFR 230.483], file the exhibits listed below as part of the registration statement. Letter or number the exhibits in the sequence indicated and file

copies rather than originals, unless otherwise required by rule 483. Reflect any exhibit incorporated by reference in the list below and identify the previously filed document containing the incorporated material.

(a) *Articles of Incorporation.* The Fund's current articles of incorporation, charter, declaration of trust or corresponding instruments and any related amendment.

(b) *By-laws.* The Fund's current by-laws or corresponding instruments and any related amendment.

(c) *Instruments Defining Rights of Security Holders.* Instruments defining the rights of holders of the securities being registered, including the relevant portion of the Fund's articles of incorporation or by-laws.

(d) *Investment Advisory Contracts.* Investment advisory contracts relating to the management of the Fund's assets.

(e) *Underwriting Contracts.* Underwriting or distribution contracts between the Fund and a principal underwriter, and agreements between principal underwriters and dealers.

(f) *Bonus or Profit Sharing Contracts.* Bonus, profit sharing, pension, or similar contracts or arrangements in whole or in part for the benefit of the Fund's directors or officers in their official capacity. Describe in detail any plan not included in a formal document.

(g) *Custodian Agreements.* Custodian agreements and depository contracts under section 17(f) [15 U.S.C. 80a-17(f)] concerning the Fund's securities and similar investments, including the schedule of remuneration.

(h) *Other Material Contracts.* Other material contracts not made in the ordinary course of business to be performed in whole or in part on or after the filing date of the registration statement.

(i) *Legal Opinion.* An opinion and consent of counsel regarding the legality of the securities being registered, stating whether the securities will, when sold, be legally issued, fully paid, and nonassessable.

(j) *Other Opinions.* Any other opinions, appraisals, or rulings, and related consents relied on in preparing the registration statement and required by section 7 of the Securities Act [15 U.S.C. 77g].

(k) *Omitted Financial Statements.* Financial statements omitted from Item 22.

(l) *Initial Capital Agreements.* Any agreements or understandings made in consideration for providing the initial capital between or among the Fund, the underwriter, adviser, promoter or initial shareholders and written assurances from promoters or initial shareholders that purchases were made for investment purposes and not with the intention of redeeming or reselling.

(m) *Rule 12b-1 Plan.* Any plan entered into by the Fund under rule 12b-1 and any agreements with any person relating to the plan's implementation.

(n) *Financial Data Schedule.* A Financial Data Schedule meeting the requirements of rule 483 under the Securities Act.

(o) *Rule 18f-3 Plan.* Any plan entered into by the Fund under rule 18f-3, any agreement with any person relating to the plan's implementation, and any amendment to the plan or an agreement.

Item 24. Persons Controlled by or Under Common Control With the Fund

Provide a list or diagram of all persons directly or indirectly controlled by or under common control with the Fund. For any person controlled by another person, disclose the percentage of voting securities owned by the immediately controlling person or other basis of that person's control. For each company, also provide the state or other sovereign power under the laws of which the company is organized.

Instructions.

1. Include the Fund in the list or diagram and show the relationship of each company to the Fund and to the other companies named, using cross-references if a company is controlled through direct ownership of its securities by two or more persons.

2. Indicate with appropriate symbols subsidiaries that file separate financial statements, subsidiaries included in consolidated financial statements, or unconsolidated subsidiaries included in group financial statements. Indicate for other subsidiaries why financial statements are not filed.

Item 25. Indemnification

State the general effect of any contract, arrangements or statute under which any director, officer, underwriter or affiliated person of the Fund is insured or indemnified against any liability incurred in their official capacity, other than insurance provided by any director, officer, affiliated person, or underwriter for their own protection.

Item 26. Business and Other Connections of the Investment Adviser

Describe any other business, profession, vocation or employment of a substantial nature that each investment adviser, and each director, officer or partner of the adviser, is or has been engaged within the last two fiscal years for his or her own account or in the capacity of director, officer, employee, partner, or trustee.

Instructions.

1. Disclose the name and principal business address of any company for which a person listed above serves in the capacity of director, officer, employee, partner, or trustee, and the nature of the relationship.

2. The names of investment advisory clients need not be given in answering this Item.

Item 27. Principal Underwriters

(a) State the name of each investment company (other than the Fund) for which each principal underwriter currently distributing the Fund's securities also acts as a principal underwriter, depositor, or investment adviser.

(b) Provide the information required by the following table for each director, officer, or partner of each principal underwriter named in the response to Item 20:

(1) Name and principal business address	(2) Positions and offices with underwriter	(3) Positions and offices with fund
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(c) Provide the information required by the following table for all commissions and other compensation received, directly or indirectly, from the Fund during the last fiscal year by each principal underwriter who is *not* an affiliated person of the Fund or any affiliated person of an affiliated person:

(1) Name of principal underwriter	(2) Net underwriting discounts and commissions	(3) Compensation on redemption and repurchases	(4) Brokerage commissions	(5) Other compensation

Instructions.

1. Disclose the type of services rendered in consideration for the compensation listed under column (5).
2. Instruction 1 to Item 20(c) also applies to this Item.

Item 28. Location of Accounts and Records

State the name and address of each person maintaining physical possession of each account, book, or other document required to be maintained by section 31(a) [15 U.S.C. 80a-30(a)] and the rules under that section.

Item 29. Management Services

Provide a summary of the substantive provisions of any management-related service contract not discussed in Part A or B, disclosing the parties to the contract and the total amount paid and by whom for the Fund's last three fiscal years.

Instructions.

1. The instructions to Item 15 also apply to this Item.
2. Exclude information about any service provided for payments totaling less than \$5,000 during each of the last three fiscal years.

Item 30. Undertakings

In initial registration statements filed under the Securities Act, provide an undertaking to file an amendment to the registration statement with certified financial statements showing the initial capital received before accepting subscriptions from more than 25 persons if the Fund intends to raise its initial capital under section 14(a)(3) [15 U.S.C. 80a-14(a)(3)].

Signatures

Pursuant to the requirements of (the Securities Act and) the Investment Company Act, the Fund (certifies that it meets all of the requirement for effectiveness of this registration statement under rule 485(b) under the Securities Act and) has duly caused this registration statement to be signed on its behalf by the undersigned, duly authorized, in the City of _____, and State of _____ on the day of _____, _____ (year)

Fund _____

By _____
(Signature and Title)

Pursuant to the requirements of the Securities Act, this registration statement has been signed below by the following persons in the capacities and on the date(s) indicated.

(Signature)

(Title)

(Date)

Dated: March 13, 1998.

By the Commission.

Margaret H. McFarland,
Deputy Secretary.

[**Note:** Appendix A and Appendix B to the preamble will not appear in the *Code of Federal Regulations*.]

APPENDIX A—ANALYSIS OF FORM N-1A ITEMS, AS AMENDED

Form N-1A, as amended	Source of form N-1A items
Facing Sheet	Facing Sheet—revised.
General Instructions:	
A. Definitions	New.
B. Filing and Use of Form N-1A	Revised General Instructions A, B, C, and F.
C. Preparation of the Registration Statement	Revised General Instructions G and I.
D. Incorporation by Reference	Revised General Instruction E.
Part A	
Item 1. Front and Back Cover Pages:	
(a) Front cover page	Revised Item 1.
(b) Back cover page.	New.
Item 2. Risk/Return Summary: Investments, Risks, and Performance:	
(a) Fund investment objectives/goals	New.
(b) Principal investment strategies of the fund	New.
(c) Principal risks of investing in the fund	New.
(1) Narrative risk disclosure	New.
(2) Risk/Return Bar Chart and Table	New.
Item 3. Risk/Return Summary: Fee Table	Revised Item 2.
Item 4. Investment Objectives, Principal Strategies, and Related Risks:	
(a) Investment Objectives	Revised Item 4(a)(ii).
(b) Implementation of Investment Objectives	Revised Item 4(a)(ii)(B).
(c) Risks	Revised Item 4(c).
Item 5. Management's Discussion of Fund Performance	Item 5A.
Item 6. Management, Organization, and Capital Structure:	

APPENDIX A—ANALYSIS OF FORM N-1A ITEMS, AS AMENDED—Continued

Form N-1A, as amended	Source of form N-1A items
(a) Management	
(1) Investment adviser	Revised Item 5(b).
(2) Portfolio manager	Revised Item 5(c).
(3) Legal proceedings	Revised Item 9.
(b) Capital stock	Revised Item 6(a).
Item 7. Shareholder Information:	
(a) Pricing of Fund Shares	Revised Items 7(b)(i) and (ii).
(b) Purchase of Fund Shares	Revised Items 7 (introductory sentence) and 7(d).
(c) Redemption of Fund Shares	Revised Item 8.
(d) Dividends and Distributions	Revised Item 6(f).
(e) Tax Consequences	Revised Item 6(g).
(f) Separate Disclosure Document	New.
Item 8. Distribution Arrangements:	
(a) Sales Loads	Revised Items 7(b)(iii), (c) and (g).
(b) Rule 12b-1 Fees	Revised Items 7 (e) and (f).
(c) Multiple Class and Master-Feeder Funds	Revised General Instruction I and Item 6(h).
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APPENDIX A—ANALYSIS OF FORM N-1A ITEMS, AS AMENDED—Continued

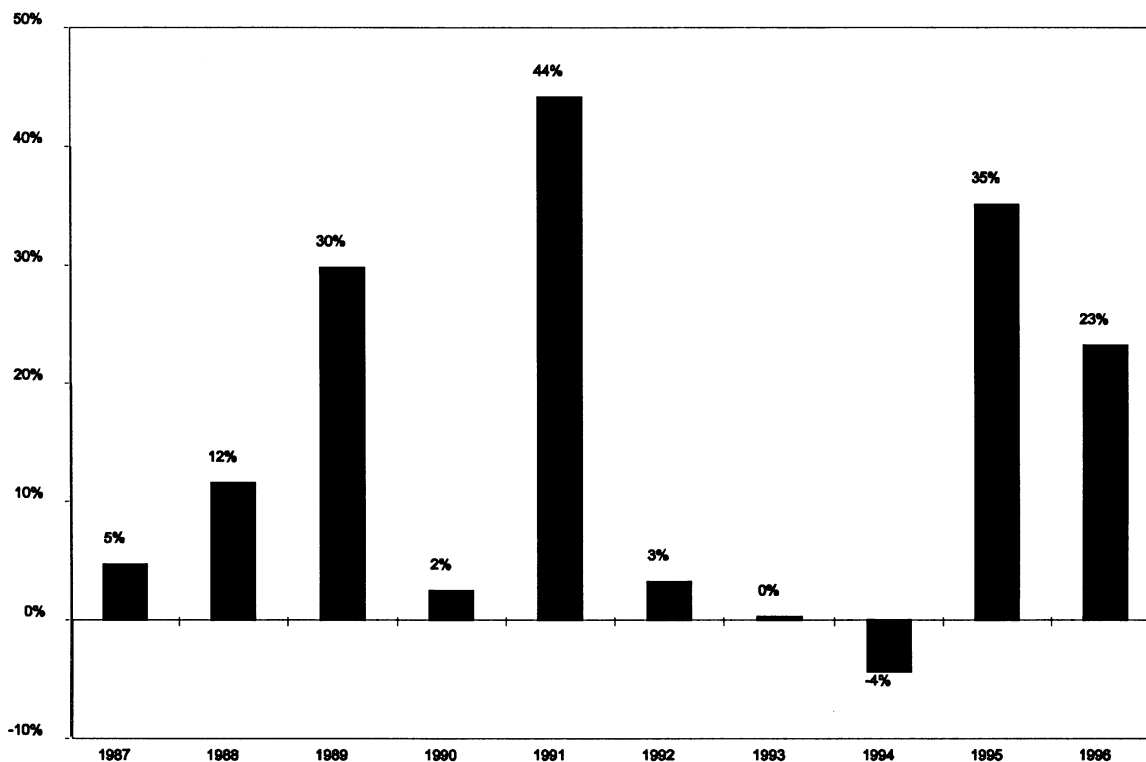
Form N-1A, as amended	Source of form N-1A items
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BILLING CODE 8010-01-U

APPENDIX B

BAR CHART AND PERFORMANCE TABLE

The bar chart and table shown below provide an indication of the risks of investing in the XYZ Stock Fund by showing changes in the Fund's performance from year to year over a 10-year period and by showing how the Fund's average annual returns for one, five, and ten years compare to those of a broad-based securities market index. How the Fund has performed in the past is not necessarily an indication of how the Fund will perform in the future.



During the 10-year period shown in the bar chart, the highest return for a quarter was 25.3% (quarter ending Sept. 30, 1995) and the lowest return for a quarter was -13.6% (quarter ending June 30, 1989).

Average Annual Total Returns (for the periods ending December 31, 1996)	Past One Year	Past 5 Years	Past 10 Years
XYZ Stock Fund	23.2%	11.5%	15%
S & P 500*	20.26%	12.87%	12.58%

* The S & P 500® is the Standard & Poor's Composite Index of 500 Stocks, a widely recognized, unmanaged index of common stock prices.

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SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 230 and 270

[Release Nos. 33-7513; IC-23065; File No. S7-18-96]

RIN 3235-AH03

New Disclosure Option for Open-End Management Investment Companies

AGENCY: Securities and Exchange Commission

ACTION: Final rule

SUMMARY: The Securities and Exchange Commission is adopting a new rule that would permit a mutual fund to offer investors a new disclosure document called a "Aprofile," which summarizes key information about the fund, including the fund's investment strategies, risks, performance, and fees, in a concise, standardized format. A fund that offers a profile will be able to give investors a choice of the amount of information that they wish to consider before making a decision about investing in the fund; investors will have the option of purchasing the fund's shares after reviewing the information in the profile or after requesting and reviewing the fund's prospectus (and other information). An investor deciding to purchase fund shares based on the information in a profile will receive the fund's prospectus with the confirmation of purchase.

DATES: Effective on June 1, 1998.

FOR FURTHER INFORMATION CONTACT: Kathleen K. Clarke, Assistant Director, George J. Zornada, Team Leader, or Laura J. Riegel, Attorney, (202) 942-0721, Office of Disclosure Regulation, Division of Investment Management, Securities and Exchange Commission, 450 Fifth Street, N.W., Mail Stop 5-6, Washington, D.C. 20549-6009. Contact the Office of Chief Counsel, Division of Investment Management, Securities and Exchange Commission, at (202) 942-0659 or 450 Fifth Street, N.W., Mail Stop 5-6, Washington, D.C. 20549-6009 for additional information, including interpretive guidance, relating to this release or the profile.

SUPPLEMENTARY INFORMATION: The Securities and Exchange Commission (the "Commission") today is adopting new rule 498 [17 CFR 230.498] under the Securities Act of 1933 [15 U.S.C. 77a, *et seq.*] ("Securities Act") and the Investment Company Act of 1940 [15 U.S.C. 80a-1, *et seq.*] ("Investment

Company Act"). Rule 498 permits an open-end management investment company that registers on Form N-1A [17 CFR 274.11A] (a "fund") to provide to investors a disclosure document called a "profile," which summarizes key information about the fund and gives investors the option of purchasing the fund's shares based on the information in the profile. The Commission also is adopting amendments to rule 497 under the Securities Act [17 CFR 230.497] to require a fund to file a profile with the Commission at least 30 days prior to the profile's first use. In a companion release, the Commission is adopting revisions to the prospectus disclosure requirements in Form N-1A, the registration statement used by funds.¹ These revisions seek to minimize prospectus disclosure about technical, legal, and operational matters that generally are common to all funds and to focus prospectus disclosure on essential information about a particular fund that would assist an investor in making a decision about investing in that fund.

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I. Introduction and Background

Over the last decade, the fund industry has grown tremendously. Over 6,000 funds are now available to investors and close to 40 million American households own funds.²

¹ Investment Company Act Release No. 23064 (Mar. 13, 1998) ("Form N-1A Release").

² See INVESTMENT COMPANY INSTITUTE ("ICI"), Trends in Mutual Fund Investing: September 1997 at 3 (Oct. 30, 1997) (ICI News No.

Today, fund assets exceed the deposits of commercial banks.³

As more investors turn to funds for professional management of current and retirement savings, funds have introduced new investment options and shareholder services to meet the needs of investors. While benefiting from these developments, investors also face an increasingly difficult task in choosing among different fund investments. The Commission, fund investors, and others have recognized the need to improve fund disclosure documents to help investors evaluate and compare funds.⁴ In the Commission's view, the growth of the fund industry and the diversity of fund investors warrant a new approach to fund disclosure that will offer more choices in the format and amount of information available about fund investments.⁵

97-93) ("ICI Trends") (as of Sept. 1997, there were 6,666 funds) and ICI, Mutual Fund Ownership in the U.S., FUNDAMENTALS, Dec. 1996, at 1 (approximately 36.8 million households owned mutual funds either directly or through a retirement plan as of April 1996).

³ Compare ICI Trends at 1 (fund net assets exceeded \$4.4 trillion as of Sept. 1997) with Federal Reserve Bank Statistical Release H.8: Assets and Liabilities of Commercial Banks in the United States (Nov. 7, 1997) (commercial bank deposits were approximately \$3.0 trillion as of Oct. 1997).

⁴ See, e.g., "Fulfilling the Promise of Disclosure," Remarks by Arthur Levitt, Chairman, SEC, before the American Savings Education Council, New York, NY (July 23, 1997); Remarks by Steven M.H. Wallman, Commissioner, SEC, before the ICI's 1995 Investment Company Directors Conference and New Directors Workshop, Wash., D.C. (Sept. 22, 1995); "Mutual Funds and the International Marketplace: A Regulatory Challenge," Remarks by Isaac C. Hunt, Jr., Commissioner, SEC, before the Sixth Annual Conference on International Issues, The University of Tulsa, Tulsa, Okla. (Mar. 6, 1997). See also McTague, Simply Beautiful: Shorn of Legalese, Even Prospectuses Make Sense, BARRON'S, Oct. 7, 1996, at F10 (concerning the recent efforts of the John Hancock funds and other fund groups to simplify their prospectuses).

⁵ The Commission has demonstrated an on-going commitment to improve the information provided in fund disclosure documents to meet changes in the fund industry and investors' needs. The Commission has taken a number of steps in recent years to meet this goal. See Investment Company Act Release No. 20974 (Mar. 29, 1995) [60 FR 17172] (requesting comment on ways to improve risk disclosure and comparability of fund risk levels) ("Risk Concept Release"); Investment Company Act Release No. 19382 (Apr. 6, 1993) [58 FR 19050] (simplifying financial highlights information and requiring management's discussion of fund performance ("MDFP")); Investment Company Act Release No. 16245 (Feb. 2, 1988) [53 FR 3868] ("Fund Performance Release") (adopting a uniform formula for calculating fund performance); Investment Company Act Release No. 16244 (Feb. 1, 1988) [53 FR 3182] (adopting a uniform fee table in fund prospectuses). See also SEC, REPORT OF THE ADVISORY COMMITTEE ON THE CAPITAL FORMATION AND REGULATORY PROCESSES (July 24, 1996); SEC, REPORT OF THE TASK FORCE ON DISCLOSURE SIMPLIFICATION (1996) (recommending specific improvements in the disclosure provided by corporate issuers).