

### *C. Request for Comments Regarding Prospectus Simplification Generally*

The Commission is currently reviewing the prospectus disclosure requirements for all management investment companies to determine what changes might improve further the quality of prospectus disclosure, particularly in light of regulatory developments and changes in the investment company industry.<sup>41</sup> The Commission would consider proposing further amendments to Form N-1A to simplify and generally improve the quality of prospectus disclosure to investors in other types of mutual funds. The Commission requests comments and suggestions about ways in which the Form may be amended to further shorten and simplify prospectus disclosure for other mutual funds. Specifically, the Commission seeks comment on: (i) whether some information currently required to be presented in narrative form could be presented more effectively in a graphic, pictorial, or tabular format; and (ii) whether the appropriate allocation of required disclosure between the prospectus and the SAI should be clarified.

The Commission also requests comment on the utility to investors of money fund portfolio schedules, which are provided in semi-annual reports to shareholders.<sup>42</sup> Do these schedules provide useful information for investors? Should other information be provided instead or in a different format from that currently required?

### **III. Amendments to Staff Guides**

Form N-1A is accompanied by a series of staff guides designed, among other things, to clarify the disclosure requirements in the form. The Appendix to this release contains draft revisions to the current guides.

The Division of Investment Management (the "Division") intends to revise Guides 3, 4, 8 and 22 to Form N-1A to reflect the amendments proposed today. Guide 3 (Investment Objectives and Policies) would be revised to urge money funds to be concise in describing the manner in which they propose to

achieve their investment objectives and would state that a general description of the types of instruments in which the fund may invest and the issuers of those instruments generally should be sufficient; that listing or describing each type of instrument in which the fund may invest is not required; and that detailed descriptions of rule 2a-7's requirements and the various nationally recognized statistical rating organizations ("NRSROs") and the ratings they assign should be omitted. The Division staff intends to revise Guide 4 (Types of Securities) to state that money funds are not required to list or describe the particular instruments in which the fund may invest. Guide 8 (Senior Securities, Reverse Repurchase Agreements, Firm Commitment Agreements and Standby Commitment Agreements) would be revised to state that money funds should discuss the use of certain trading practices in the SAI in response to Item 13 rather than in the prospectus. Finally, Guide 22 (Government Securities) would be amended to shift some of the disclosure money funds place in their prospectuses about U.S. Government securities to the SAI.

The Division also intends to revise Guides 4 and 5 to clarify certain other matters applicable to money funds. Guide 4 (Types of Securities) would be revised to clarify the Commission's policy that money funds may not invest more than ten percent of their assets in illiquid securities.<sup>43</sup> Guide 5 (Portfolio Turnover) would be amended to indicate that money funds need not discuss the effects of portfolio turnover, as an investment technique, in the prospectus. Money funds would still be required to discuss the effects of portfolio turnover in the SAI.<sup>44</sup>

The Division requests comment on the proposed changes to the guides and the deletion of the guides regarding performance data,<sup>45</sup> as well as any suggestions for amendment of existing guides that would result in improved

disclosure by money funds and other types of mutual funds.

### **IV. Transition Period**

If adopted, the proposed amendments would become effective sixty days after publication in the **Federal Register**. Funds would be required to conform their prospectuses and SAIs to the amendments in their next post-effective amendment filed after the conclusion of the sixty day period that updates financial statements pursuant to the requirements of section 10(a)(3) of the 1933 Act [15 U.S.C. 77j(a)(3)]. New funds would be required to implement the new requirements in registration statements filed after the conclusion of the sixty day period.

### **V. General Request for Comments**

All interested persons who wish to submit written comments on the proposed form, rule, and Guide amendments discussed in this release, to suggest other amendments to Forms N-1A and N-3, or to comment on related matters that might have a significant impact upon the proposals discussed in this release, are requested to do so. Commenters suggesting alternative approaches are encouraged to submit proposed text to amend the Form or related rules or staff guides.

### **VI. Cost/Benefit of Proposal**

The changes to Forms N-1A and N-3 and related rules proposed today are intended to shorten and simplify the prospectuses provided to investors and potential investors in money funds and to improve the quality of prospectus disclosure by these funds. The proposed revisions should benefit investors by providing them with a shorter, clearer and, therefore, more useful document and better enable investors to make an informed investment decision. Because the proposed revisions would shorten the prospectuses provided by most money funds, the revisions should reduce the burdens of preparing and the cost of mailing the prospectus for funds. That information which is transferred from the prospectus to the SAI will lengthen the SAIs of some funds; however, the number of investors typically requesting the SAI is much lower than the number of investors to whom the prospectus will be provided. The Commission is interested in any public comment concerning the cost savings or cost burdens to money funds of all sizes affected by these proposals.

### **VII. Summary of Initial Regulatory Flexibility Analysis**

The Commission has prepared an Initial Regulatory Flexibility Analysis in

<sup>41</sup> The Commission recently issued a concept release regarding mutual fund risk disclosure and requested comment regarding a broad range of issues related to this topic. See Investment Company Act Rel. No. 20974 (Mar. 29, 1995) [60 FR 17172 (Apr. 4, 1995)].

<sup>42</sup> Rule 30d-1 [17 CFR 270.30d-1] requires that shareholder reports contain the financial statements specified in the appropriate investment company registration statement form. Instructions for preparing financial statements are contained in the registration statement forms, which refer to the requirements of Regulation S-X. See, e.g., instructions to Item 23 of Form N-1A.

<sup>43</sup> See Investment Company Act Rel. No. 13380 (July 11, 1983) [48 FR 32555 (July 18, 1983)]. See also Investment Company Institute (pub. avail. Dec. 9, 1992). The limit on illiquid holdings by other types of mutual funds is fifteen percent of net assets. See Investment Company Act Rel. No. 18612 (Mar. 12, 1992). See also Merrill Lynch Money Markets, Inc. (pub. avail. Jan. 14, 1994) (subject to certain conditions, limit on illiquid securities does not apply to commercial paper issued in reliance on Section 4(2) of the 1933 Act).

<sup>44</sup> In the 1993 amendments to Form N-1A, money funds were explicitly exempted from the requirement to state their portfolio turnover rates in the Financial Highlights table. See Release 19382, *supra* note 10 at n.3.

<sup>45</sup> See *supra* note 31.