

- (i) The types of instruments which it purchases or intends to purchase;
- (ii) The types of issuers that issue the instruments in which it intends to invest;
- (iii) Significant investment policies or techniques (e.g., forward delivery contracts, repurchase agreements, and standby commitments) that the Registrant employs or has the current intention of employing in the foreseeable future; and
- (iv) The quality, maturity, and diversity restrictions which pertain to money market fund investments, to the extent such descriptions are not included in the prospectus in response to Instruction 1 to Item 4.

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18. Form N-1A (referenced in §§ 239.15A and 274.11A) is amended by revising the introductory text of paragraph (a), redesignating paragraphs (a)(iii) and (a)(iv) as paragraphs (a)(v) and (a)(vi); adding paragraphs (a)(iii), (a)(iv), and (a)(vii); revising Instruction 4 to paragraph (a); adding Instruction 5 to paragraph (a); and revising the introductory text of paragraph (b)(iii) of Item 22 to read as follows:

#### Form N-1A

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#### Item 22. Calculation of Performance Data

(a) *Money Market Funds.* If a money market fund Registrant advertises a yield quotation, an effective yield quotation, a tax equivalent yield quotation, or a tax equivalent effective yield quotation, furnish:

\* \* \* \* \*

(iii) A tax equivalent current yield quotation computed by dividing that portion of the yield of the Registrant (as computed pursuant to Item 22(a)(i)) which is tax-exempt by one minus a stated income tax rate and adding the product to that portion, if any, of the yield of the Registrant that is not tax-exempt;

(iv) A tax equivalent effective yield quotation computed by dividing that portion of the effective yield of the Registrant (as computed pursuant to Item 22(a)(ii)) which is tax-exempt by one minus a stated income tax rate and adding the product to that portion, if any, of the yield of the Registrant that is not tax-exempt;

\* \* \* \* \*

(vii) The income tax rate used in the computation.

#### Instructions

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4. If the Registrant does not advertise any of the four types of yield, it need

not disclose or discuss the computation of that yield.

5. If the Registrant holds itself out as distributing income that is exempt from federal and/or state and/or local income taxation, in calculating yield and effective yield (but not tax equivalent yield or tax equivalent effective yield), the Registrant must reduce the yield quoted by the effect of any income taxes on the shareholder receiving dividends, employing the maximum rate for individual income taxation. For example, if the Registrant 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 Registrants.

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(iii) *Tax Equivalent Yield.* If the Registrant advertises a tax equivalent yield, furnish,

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19. Form N-1A (referenced in §§ 239.15A and 274.11A), paragraph (b) of Item 24, is amended by removing paragraph (16) and redesignating paragraphs (17) and (18) as paragraphs (16) and (17).

20. Guide 3 to Form N-1A is revised to read as follows:

#### Guide 3. Investment Objective and Policies

In the response to Item 4, the registrant's investment objective and policies (including the types of securities in which it will invest) should be clearly and concisely stated in the prospectus so that they may be readily understood by the investor. Because the circumstances of each registrant will vary, it is not possible to define precisely what level of investment would make a particular type of investment one in which the registrant invests "principally," as that term is used in Item 4. As a general matter, however, the level of disclosure as to a particular type of investment should be consistent with the prominence of that type of investment in the registrant's portfolio. The prospectus should emphasize the main types of investments the registrant proposes to make and the principal risks inherent in such investments. Accordingly, discussions of types of investments that will not constitute the registrant's principal portfolio emphasis should be as brief as possible and, in many cases, may be limited to identifying the particular type of investments. (As

discussed below, the instructions delineate certain circumstances in which disclosure may be so limited.) Similar treatment should be accorded to other types of practices, such as borrowing money. In order to achieve the objective of clear and concise disclosure, registrants should avoid extensive legal and technical detail and need not discuss every possible contingency, such as remote risks.<sup>3</sup>

Money market fund registrants in particular are urged to be concise in describing the manner in which they propose to achieve their investment objectives (item 4(a)(iii)). A general description of the types of instruments in which the registrant may invest (i.e., short-term, high quality instruments) and the types of issuers that issue the securities in which the registrant may invest (e.g., corporations, banks, etc.) should generally be sufficient. As stated in Instruction 1 to Item 4, listing or describing each type of instrument in which the registrant may invest is not required; however, the registrant should identify those groups of securities or types of issuers in which it has reserved the right to invest more than 5% of its assets, unless it has not invested more than 5% of its assets in those securities or issuers within the past year and has no current intention of doing so in the foreseeable future. Registrants should omit detailed descriptions of rule 2a-7's requirements and the various NRSROs and the ratings they assign to securities in which the fund may or does invest. More detailed responses regarding investment policies and techniques should be provided in the Statement of Additional Information in response to Item 13.

Pursuant to Instruction 3(i) to Item 4(a), the registrant should omit from the prospectus disclosure about so-called negative investment policies, that is, policies that prohibit a particular type of investment or practice. Item 4(a) may have particular applicability to those types of activities for which section 8(b) of the 1940 Act specifically requires that there be information in the registration statement. Although Item 4(a) generally does not attempt to define what or how much disclosure should be made about particular practices, Instruction 3(ii) calls for minimal disclosure of policies registrant will not follow to a significant extent. Specifically, if not more than 5 percent of the registrant's net assets will be at risk, the prospectus should merely identify the policy or practice. For example, if a registrant planned to

<sup>3</sup> See individual subject headings of these Guidelines concerning disclosure for specific investment techniques or policies.