

invested in open-end investment companies, or "mutual funds"—have grown steadily. The conferees will discuss a number of Commission initiatives aimed at improving disclosure to mutual fund investors.

The conferees will discuss ways to improve the quality of information regarding mutual funds available to investors, particularly less experienced investors, as well as federal and state efforts toward more uniform federal and state investment company disclosure requirements. The conferees will also discuss the steps they are taking to examine and to improve the clarity and adequacy of mutual fund prospectuses.

In response to a request from certain members of Congress, the Division of Investment Management prepared a study dated September 26, 1994 on the use of derivatives by mutual funds. As part of its study, the Division recommended that the Commission consider seeking public comment in early 1995 on alternatives for improving risk disclosure in mutual fund prospectuses. The conferees are expected to discuss issues relating to investment company risk disclosure, including the possible use of quantitative risk measurement. In addition, the conferees will discuss ways to facilitate investor access to information about portfolio securities held by funds.

The Commission recently proposed rule and form amendments relating to the reporting of expenses by investment companies.<sup>20</sup> The proposed amendments would require an investment company to reflect as expenses in its financial statement certain liabilities of the company paid by broker-dealers in connection with the allocation of the company's brokerage transactions to the broker-dealers. The amendments are intended to enhance the information provided to investors so that they may better assess investment company expenses and performance. The conferees are expected to discuss this proposal and the comments that the Commission has received.

In October of 1994, the Commission adopted significant revisions to the proxy rules applicable to funds.<sup>21</sup> The amended rules are the first significant revisions to the fund proxy rules since 1960 and reflect the Commission's commitment to improved disclosure for fund shareholders. The conferees are expected to discuss the revised rules.

<sup>20</sup>Investment Company Act Release No. 20472 (Aug. 11, 1994) (59 FR 42187) (proposing amendments to Rule 6-07 of Regulation S-X).

<sup>21</sup>Investment Company Act Release No. 20614 (Oct. 13, 1994) (59 FR 52689).

#### b. Investment Advisers

On March 16, 1994, the Commission proposed two new rules under the Investment Advisers Act of 1940 ("Advisers Act").<sup>22</sup> One of these rules would expressly prohibit investment advisers from making unsuitable recommendations to clients; the other proposed rule would prohibit registered investment advisers from exercising investment discretion over client accounts unless they reasonably believe that the custodians of those accounts send account statements to the clients at least quarterly. The conferees will discuss the status of the proposed rules.

The conferees will also discuss ways in which the Commission and the states can coordinate their respective investment adviser inspection programs and efforts to identify investment advisers that have failed to register as such with the Commission or the appropriate state authorities.

#### (4) Enforcement Issues

In addition to the above-stated topics, the state and federal regulators will discuss various enforcement-related issues which are of mutual interest.

#### (5) Investor Education

Recently, the Commission announced a number of initiatives to aid investors in understanding how to invest wisely and protect themselves from abusive and fraudulent industry practices. The States and NASAA have a longstanding commitment to investor education and the Commission is intent on coordinating and complementing those efforts to the greatest extent possible. The participants at the conference will discuss investor education and potential joint projects in each of the working group sessions. They will specifically consider the results of recent Commission activities in this area: Information generated at a series of town meetings and investor forums; public reaction to a new toll-free information line for investors and a new electronic bulletin board which provides information about the Commission and its responsibilities; the usefulness of other explanatory informational materials, including new pamphlets provided by the Commission to the public; and the progress of Commission efforts to develop "plain English" instructions for mandatory disclosure items, and guidelines for simpler summaries of information in required filings. Future projects to be considered will include the following:

(1) Developing an "Investor Information

Kit" for novice or unsophisticated investors that includes basic information that every investor should know in an easy-to-use format; (2) developing a model curriculum for high school classes and adult seminars on the basics of how to invest wisely and what to do if a problem arises; and (3) designing a distribution plan for Commission educational products to assure that information is provided to investors when they are in the process of making major investment decisions and most likely to need such information.

#### (6) General

There are a number of matters which are applicable to all, or a number, of the areas noted above. These include EDGAR, the Commission's electronic disclosure system, rulemaking procedures, training and education of staff examiners and analysts and sharing of information.

The Commission and NASAA request specific public comments and recommendations on the above-mentioned topics. Commenters should focus on the agenda but may also discuss or comment on other proposals which would enhance uniformity in the existing scheme of state and federal regulations, while helping to maintain high standards of investor protection.

Dated: February 15, 1995.

By the Commission.

**Margaret H. McFarland,**

*Deputy Secretary.*

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### **Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Concerning Procedures Relating to Rule 17Ad-16 and Order Designating The Depository Trust Company as the Approved Qualified Registered Securities Depository**

February 15, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on January 13, 1995, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which items have been prepared primarily by DTC. The Commission is

<sup>22</sup>Investment Advisers Act Release No. 1406 (March 16, 1994) (59 FR 13464).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).