

SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 230, 239, 270, and 274

[Release Nos. 33-7398; 34-38346; IC-22528; S7-10-97]

RIN 3235-AE46

Registration Form Used by Open-End Management Investment Companies

AGENCY: Securities and Exchange Commission.

ACTION: Proposed rule.

SUMMARY: The Securities and Exchange Commission is proposing amendments to Form N-1A, the form used by open-end investment companies to register under the Investment Company Act of 1940 and to offer their shares under the Securities Act of 1933. The proposed amendments would revise disclosure requirements for fund prospectuses. Among other things, the proposed amendments seek to minimize prospectus disclosure about technical, legal, and operational matters that generally are common to all funds and, in keeping with the purpose of Form N-1A, to focus prospectus disclosure on essential information about a particular fund that would assist an investor in deciding whether to invest in that fund. The proposed amendments are intended to improve fund prospectuses and to promote more effective communication of information about funds.

DATES: Comments must be received on or before June 9, 1997.

ADDRESSES: Submit comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 5th Street, NW, Washington, DC 20549-6009. Comments can be submitted electronically at the following E-mail address: rule-comments@sec.gov. All comment letters should refer to File No. S7-10-97; this file number should be included on the subject line if E-mail is used. All comments received will be available for public inspection and copying in the Commission's Public Reference Room, 450 5th Street, NW, Washington, DC 20549-6009. Electronically submitted comment letters will be posted on the Commission's Internet Web site (<http://www.sec.gov>).

FOR FURTHER INFORMATION CONTACT: Jonathan F. Cayne, Attorney, John M. Ganley, Senior Counsel, Markian M.W. Melnyk, Senior Counsel, David U. Thomas, Senior Counsel, Kathleen K. Clarke, Special Counsel, or Elizabeth R. Krentzman, Assistant Director, (202) 942-0721, Office of Disclosure and Investment Adviser Regulation, Division

of Investment Management, Securities and Exchange Commission, 450 5th Street, NW, Mail Stop 10-2, Washington, DC 20549-6009.

SUPPLEMENTARY INFORMATION:

The Securities and Exchange Commission ("Commission") is proposing for comment 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 proposing technical amendments to rules 481 and 497 under the Securities Act (17 CFR 230.481, .497). In a companion release, the Commission is proposing new rule 498 under the Securities Act and the Investment Company Act, which would permit an investor to buy a fund's shares based on a short-form document, or "profile," that contains a summary of key information about the fund; each investor purchasing fund shares based on a profile would receive a copy of the fund's prospectus with the purchase confirmation.¹ In another companion release, the Commission is proposing new rule 35d-1 under the Investment Company Act, which would require a fund with a name suggesting that it focuses on a particular type of investment (e.g., a fund that calls itself the ABC Stock Fund, the XYZ Bond Fund, or the QRS U.S. Government Fund) to invest at least 80% of its assets in the type of investment suggested by its name.²

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¹ Investment Company Act Release No. 22529 (Feb. 27, 1997) ("Profile Release").

² Investment Company Act Release No. 22530 (Feb. 27, 1997) ("Fund Names Release"). Proposed rule 35d-1 would apply to all registered investment companies, including funds, closed-end investment companies, and unit investment trusts.

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I. Introduction and Executive Summary

Over the last decade, the fund industry has experienced enormous growth both in total assets and in the number of funds.³ Today, fund assets exceed the deposits of commercial banks.⁴ Coincident with the explosive growth of fund investments, the business operations of many funds have become increasingly complex as funds seek to offer investors 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.⁵

³ Investment Company Institute ("ICI"), Mutual Fund Fact Book 29-37 (36th ed. 1996) ("ICI Fact Book") (between 1987 and 1996, assets increased from \$769.9 billion to \$3.5 trillion and the number of funds increased from 2,317 to 6,243).

⁴ Compare ICI, *Trends in Mutual Fund Investing: November 1996* at 3 (Dec. 1996) (ICI News No. ICI-96-107) (fund net assets exceeded \$3.5 trillion as of Nov. 1996) with 82 Fed. Res. Bull. 12, table 1.21, at A13 (1996) (commercial bank deposits were approximately \$2.5 trillion as of Sept. 1996).

⁵ See, e.g., "The SEC and the Mutual Fund Industry: An Enlightened Partnership," Remarks by Arthur Levitt, Chairman, SEC, before the ICI's General Membership Meeting at the Washington

Although the prospectus remains the most complete source of information about a fund, technical and unnecessarily lengthy prospectus disclosure often obscures important information relating to a fund investment and does not serve the information needs of the majority of fund investors.⁶ As millions of Americans have turned to funds as an investment vehicle of choice,⁷ investors need to be provided with clear and comprehensible information that will help them evaluate and compare fund investments.

The Commission is committed to improving the disclosure provided to fund investors⁸ and is proposing two major initiatives to meet this objective. First, the Commission is proposing changes to fund disclosure requirements in an effort to focus prospectus disclosure on essential information about a particular fund that would assist an investor in deciding whether to invest in that fund.⁹ Second, in a companion release, the Commission is proposing a new rule to permit investors to buy fund shares based on a fund profile (the "profile") that would provide a summary of key information about a fund, including the fund's

Hilton Hotel, Washington, D.C. (May 19, 1995); *Simple Concept from SEC: Use Plain English in Fund Prospectuses*, L.A. Times, Mar. 2, 1995, at D14; J. Bogle, Bogle on Mutual Funds 147 (1994); Rothchild, *The War on Gobbledygook*, Time, Oct. 31, 1994, at 51; Skrzycki, *Prospectuses to be in English, Donkeys to Fly Tomorrow*, Wash. Post, Oct. 21, 1994, at B1.

⁶ A 1995 survey conducted on behalf of the Commission and the Office of the Comptroller of the Currency ("OCC") found that, although fund investors 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. Report on the OCC/SEC Survey of Mutual Fund Investors 12-13 (June 26, 1996). See also 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).

⁷ Over 30 million U.S. households own funds. ICI Fact Book, *supra* note 3, at 92.

⁸ See "Taking the Mystery Out of the Marketplace: The SEC's Consumer Education Campaign," Remarks by Arthur Levitt, Chairman, SEC, at the National Press Club, Washington, D.C. (Oct. 13, 1994); "Investor Protection: Tips from an SEC Insider," Remarks by Arthur Levitt, Chairman, SEC, before the Investors' Town Meeting at the Adam's Mark Hotel, Philadelphia, Pa. (June 11, 1996).

⁹ As part of the improvements to prospectus disclosure, the Commission is proposing a new rule intended to address certain broad categories of investment company names that are likely to mislead investors about an investment company's investments and risks. The new rule would require funds and other registered investment companies with names suggesting a particular investment emphasis to invest at least 80% of their assets in the type of investment suggested by their name.

investment objectives, strategies, risks, performance, and fees.¹⁰ Under this proposal, investors would receive the fund's prospectus upon request or no later than with delivery of the purchase confirmation.

These two initiatives are intended to improve fund disclosure by requiring prospectuses to focus on information central to investment decisions, to provide new disclosure options for investors, and to enhance the comparability of information about funds. Taken together, the proposals seek to promote more effective communication of information about funds without reducing the amount of information available to investors.

As part of its commitment to give investors improved disclosure documents, the Commission recently proposed rule amendments to require the use of plain English principles in drafting prospectuses and to provide other guidance on improving the readability of prospectuses.¹¹ The Commission intends that the plain English initiatives serve as the standard for all disclosure documents, and the plain English proposals are an important counterpart of the proposed fund disclosure initiatives. If adopted, the plain English requirements would apply to fund prospectuses and the profile.

The Commission's efforts to improve fund disclosure are long-standing. In 1983, the Commission introduced an innovative approach to prospectus disclosure by adopting a two-part disclosure format.¹² Under this format, the Commission intended that a fund would provide investors with a simplified prospectus designed to contain essential information about the fund that assists an investor in making an investment decision. The Commission contemplated that more extensive information and detailed discussions of matters included in the prospectus would be available in a Statement of Additional Information ("SAI") that investors could obtain

¹⁰ Profile Release, *supra* note 1.

¹¹ Securities Act Release No. 7380 (Jan. 14, 1997) (62 FR 3152) ("Plain English Release"). In conjunction with these proposals, the Commission's Office of Investor Assistance has issued a draft of *A Plain English Handbook: How to Create Clear SEC Disclosure Documents* to explain the plain English principles of the proposed amendments and other techniques for preparing clear disclosure documents. See also "Plain English: A Work in Progress," Remarks by Isaac C. Hunt, Commissioner, SEC, before the First Annual Institute on Mergers and Acquisition: Corporate, Tax, Securities, and Related Aspects, Key Biscayne, Fla. (Feb. 6, 1997).

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

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 fundamental characteristics of the particular investment company. . . ." ¹³

Since 1983, the Commission has adopted a number of other initiatives to improve fund disclosure, including a uniform fee table and a requirement for management's discussion of fund performance ("MDFP").¹⁴ While these changes have provided investors with clear and helpful information about fund expenses and performance, they were not intended to address overall prospectus disclosure requirements. The Commission has concluded that a comprehensive review and revision of fund disclosure requirements is necessary to improve the information provided in fund prospectuses.¹⁵

The Commission's consideration of disclosure issues has included evaluating the use of the profile as a standardized, summary disclosure document. The Commission, with the cooperation of the Investment Company Institute ("ICI") and several large fund groups, conducted a pilot program permitting funds to use profiles ("pilot profiles") together with their prospectuses.¹⁶ The pilot profiles (like the profile proposed today) contain a summary of key information about the fund. The program's purpose was to determine whether investors found the pilot profiles helpful in making investment decisions. Focus groups conducted on the Commission's behalf

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

¹⁴ Investment Company Act Release Nos. 16244 (Feb. 1, 1988) (53 FR 3192) ("Fee Table Adopting Release") and 19382 (Apr. 6, 1993) (58 FR 19050) ("MDFP Adopting Release"). See also Investment Company Act Release Nos. 21216 (July 19, 1995) (60 FR 38454) ("Money Market Fund Prospectus Release") (proposing amendments designed to make money market fund prospectuses simpler and more informative) and 16245 (Feb. 2, 1988) (53 FR 3868) ("Performance Release") (adopting a uniform formula for calculating fund performance).

¹⁵ See, e.g., 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) ("Disclosure Simplification Task Force Report") (recommending specific improvements in the disclosure provided by corporate issuers).

¹⁶ See Investment Company Institute (pub. avail. July 31, 1995) ("1995 Profile Letter"). The Division of Investment Management (the "Division") has permitted the pilot program, with some modifications, to continue for another year. See Investment Company Institute (pub. avail. July 29, 1996) ("1996 Profile Letter"). The Division also has permitted variable annuity registrants to use "variable annuity profiles" together with their prospectuses. National Association for Variable Annuities (pub. avail. June 4, 1996).

("Focus Groups") responded very positively to the profile concept. Fund investors participating in a survey sponsored by the ICI also strongly favored the pilot profiles.¹⁷

In another recent initiative, the Commission issued a release requesting comment on ways to improve risk disclosure and comparability of fund risk levels ("Risk Concept Release").¹⁸ The Commission received over 3,700 comment letters, mostly from individual investors. Commenters confirmed the importance of risk disclosure to investors when evaluating and comparing funds and highlighted 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.

The Commission remains committed to the same goals articulated in adopting Form N-1A. The initiatives proposed today are intended to further these goals and achieve clear and concise disclosure that would assist fund investors in making investment decisions. Based on the Commission's review of current fund prospectuses and related disclosure requirements, the Commission has identified 5 major objectives that form the basis for today's initiatives:

- *Improved prospectus disclosure:*

Although some funds have made significant and commendable efforts to improve their prospectuses,¹⁹ prospectus disclosure relating to a fund tends to be overly complex and difficult to follow and should be revised to focus on essential information about the fund to help an investor make an informed investment decision.

- *Fund names:* Although a fund's name (like any other single piece of information about an investment) cannot tell the whole story about a fund investment, names may communicate a great deal to an investor, and investors should have greater assurance that a fund whose name suggests that the fund focuses on certain investments will make those investments.

- *Investor choice:* Different investors prefer different amounts of information before making an investment decision, and regulatory requirements should not foreclose options that respond to prospective investors' information needs.

- *Standardized fund summaries:* Investors have expressed a strong preference for summary information about funds in a standard format; summaries should provide

investors with additional tools to help them make better use of the extensive information available about funds.

- *Clearer risk disclosure:* The risks of investing in a fund often are not readily apparent to investors and should be communicated more effectively.

The proposed disclosure initiatives address these objectives.

Improved Prospectus Disclosure

The proposed amendments would change the disclosure requirements for fund prospectuses. The Commission regards the prospectus as an investor's primary source of information about a fund. A prospectus, however, is not useful to investors if it is in a form that discourages investors from reading it. The prospectus is intended to provide information about matters of fundamental importance to most investors.²⁰ The Commission's proposals are intended to update and streamline prospectus disclosure requirements to focus on essential information about a particular fund and make the prospectus less technical and easier to read.²¹ This initiative is designed to eliminate prospectus clutter that tends to obscure information that could help an investor make an investment decision. The proposed amendments would:

- Move certain disclosure about fund organization and legal requirements from the prospectus to the SAI to focus prospectus disclosure on essential information about a fund, while continuing to assure that the information is available to those interested in reviewing it;

- Permit a fund that is offered as an investment alternative in a participant-directed defined contribution plan to tailor its prospectus for use by plan participants;

- Update and incorporate certain staff disclosure requirements into the amended registration form and include guidance about legal, interpretive, and operational matters in a new "Investment Company Registration Package," which, together, would provide more effective guidance about disclosure and legal matters;²² and

²⁰ See Form N-1A Proposing Release, *supra* note 13, at 814.

²¹ Under the authority in section 10(a) of the Securities Act (15 U.S.C. 77j(a)), the Commission is proposing amendments to current prospectus disclosure requirements 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.

²² Incorporating certain staff disclosure requirements into the revised form is intended to formally identify those disclosure requirements that would apply to all funds regardless of their particular circumstances. Among other things, the proposed approach seeks to address disclosure requirements that have been developed in connection with an issue presented by a specific fund, but applied to all funds regardless of their

- Simplify current disclosure instructions to provide clearer guidance for preparing and filing fund registration statements.

Fund Names and Investments

In a companion release, the Commission is proposing a new rule under the Investment Company Act that would address certain broad categories of investment company names that are likely to mislead investors about an investment company's investments and risks. The rule would require a fund or any other registered investment company with a name that suggests a particular investment emphasis (e.g., a fund that calls itself the ABC Stock Fund, the XYZ Bond Fund, or the QRS U.S. Government Fund) to invest at least 80% of its assets in the type of investment suggested by its name.²³ Under current positions of the Division of Investment Management (the "Division"), these funds and investment companies generally are subject to a 65% investment requirement. The rule would address investment companies with names that suggest the company focuses its investments in a particular country or geographic region and investment companies with names that indicate the company's distributions are exempt from income tax. In addition, the rule would prohibit an investment company from using a name that suggests that the company or its shares are guaranteed or approved by the U.S. Government.

Investor Choice

The proposed initiatives would give investors new disclosure options so that they could determine the amount of information they want to review before investing in a fund. The proposed profile would contain a summary of key information about a fund and enable investors who are comfortable with that level of information to purchase a fund's shares based on the profile.²⁴ Each investor using the profile to make an investment decision would receive the

particular circumstances. See Securities Act Release No. 5906 (Feb. 15, 1978) (regarding a 1977 report of the Advisory Committee on Corporate Disclosure, which, among other things, recommended that, after identifying a disclosure problem of general significance, the Commission initiate rulemaking and not rely for prolonged periods on ad hoc procedures such as commenting on filings and enforcement actions).

²³ Fund Names Release, *supra* note 2.

²⁴ The profile would be a summary prospectus adopted under sections 10(b) of the Securities Act (15 U.S.C. 77j(b)) and 24(g) of the Investment Company Act (15 U.S.C. 80a-24(g)).

¹⁷ See ICI Profile Survey, *supra* note 6, at 31-32.

¹⁸ Investment Company Act Release No. 20974 (Mar. 29, 1995) (60 FR 17172).

¹⁹ See, e.g., McTague, Simply Beautiful: Shorn of Legalese, Even Prospectuses Make Sense, Barron's, Oct. 7, 1996, at F10 (about the recent efforts of the John Hancock funds and other fund groups to improve their prospectuses).

fund's prospectus with the confirmation of his or her investment. Investors also would have the option to request and review the fund's prospectus and other information about the fund (e.g., the fund's shareholder reports and SAI) before making an investment decision.

Standardized Fund Summaries

The proposals would require standardized information in the profile and in a new risk/return summary at the beginning of all fund prospectuses. The profile would include disclosure of 9 items in a specific order and in a question-and-answer format designed to help investors evaluate and compare funds.²⁵ The risk/return summary at the beginning of the prospectus (also included as the first 4 items in the proposed profile) would highlight information about a fund's investment objectives, strategies, risks and performance, and fees, and make this information readily available to investors in a consistent presentation.

Clearer Risk Disclosure

The proposals seek to improve prospectus disclosure about the risks of investing in a particular fund. Based in large part on comments received in response to the Risk Concept Release,²⁶ the proposals would improve risk disclosure as follows:

Overall fund risks—A fund would be required to discuss in the prospectus the overall risks of investing in the fund. The proposed amendments are designed to minimize the detailed and technical descriptions of the risks associated with specific portfolio securities typically included in a fund's prospectus and to elicit risk disclosure that relates to the particular fund and would be more useful to investors.

Narrative risk summary—The profile and the prospectus risk/return summary would include a narrative risk summary. The risk summary would provide a concise description of a fund's overall risks that could be used to evaluate and compare the risks of different funds.

Graphic presentation of risk—The profile and prospectus risk/return summary would include a bar chart reflecting a fund's returns over a ten-year period, which would illustrate fund risks by showing changes in the fund's performance from year to year. To help investors evaluate a fund's risks and returns relative to "the market," a table accompanying the bar chart would compare

²⁵ The profile would include disclosure about a fund's investment objectives, strategies, risks and performance, fees, investment adviser and portfolio manager, purchase and redemption procedures, tax implications, and the services available to shareholders. See Profile Release, *supra* note .

²⁶ 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").

the fund's performance to that of a broad-based securities market index.

* * * * *

The proposed initiatives are designed to promote more effective communication of information about funds without reducing the amount of information available to investors and other interested parties (e.g., financial analysts and advisers). The proposals would further Commission actions to improve prospectus disclosure beginning with the two-part disclosure format adopted in 1983. Permitting funds to use profiles would respond to investor support for a concise disclosure document highlighting key fund information. The profile would complement the revised prospectus, which, as the primary disclosure document, would be delivered to all investors that purchase fund shares. Taken together, these initiatives are intended to better realize the Commission's commitment to improving disclosure for fund investors.

II. Discussion

Release Organization. The revised Form would retain the overall structure of current Form N-1A. To make the proposed requirements of revised Form N-1A easy to follow and to highlight the proposed changes, this release addresses revised Items in the order that they would appear in the Form. While some Items in proposed Part A (the prospectus) would not be changed (except for technical revisions to improve clarity), other Items would be new or extensively revised. Certain disclosure currently required in the prospectus would be moved to Part B (the SAI), where the information would continue to be available to investors and others who are interested in the information.²⁷ The proposed amendments would incorporate certain disclosure requirements from the Guidelines for Form N-1A (the "Guides") and the Generic Comment Letters ("GCLs") that have been issued over time by the Division.²⁸

The proposed amendments also would revise the General Instructions to Form N-1A to update the Instructions and make them easier to use. The release discusses in detail the proposed changes to the General Instructions after discussing changes to the Form's

²⁷ In addition, Parts B and C of proposed Form N-1A would include a number of technical revisions to clarify and simplify the Form's requirements.

²⁸ 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 GCLs, see *infra* notes 255-261 and accompanying text.

disclosure requirements.²⁹ The proposed amendments would add several definitions to the General Instructions to standardize certain terms used in the Form. In particular, a new definition of "fund" would accommodate the use of Form N-1A by series funds.³⁰ The General Instructions also would address other matters regarding the use of Form N-1A, including disclosure relating to multiple funds and classes, prospectuses used in the defined contribution plan market, and incorporation by reference.

Plain English. Investment company registration statement forms currently include instructions, which govern all prospectus disclosure, directing a fund to provide information in the prospectus in a clear, concise, understandable manner by, among other things, avoiding the use of technical or legal terms, complex language, or excessive detail.³¹ The Commission's plain English proposals also would apply to prospectus disclosure.³² Initially, the proposed plain English principles would apply to the front and back cover pages of a fund's prospectus and to the summary of the prospectus, if any.³³ Because the Commission issued the plain English release before this release proposing amendments to Form N-1A, the proposed requirement for plain English risk factors disclosure does not specifically identify the proposed risk/return summary, which is the parallel type of disclosure for funds and is not a summary of the prospectus. If the proposed plain English requirements and the proposed risk/return summary are adopted, the Commission intends to clarify that plain English disclosure principles apply to the risk/return summary.³⁴ The Commission also requested comment whether the plain English disclosure principles should be modified for fund prospectuses.

²⁹ See *infra* Part II.D.

³⁰ Funds often organize as series funds and offer investors an opportunity to invest in one or more "portfolios," each of which has a specific investment objective. The revised Form would define a "fund" to include both the registrant and a series of the registrant unless otherwise indicated.

³¹ See, e.g., General Instruction G of Form N-1A.

³² See Plain English Release, *supra* note 11.

³³ *Id.* (proposing amendments to add new paragraph (d) to rule 421 under the Securities Act (17 CFR 230.421)).

³⁴ To improve the clarity of prospectus disclosure, the Plain English Release also proposed revisions to Regulation S-K (17 CFR 229.10 *et seq.*), which sets out general disclosure requirements for corporate issuers. Similar requirements are included in specific rules for funds, and conforming changes to these rules would be made in connection with this and other fund disclosure initiatives. See proposed amendments to rule 481(b)(1) (disclaimer about the Commission's approval of securities offered in a prospectus), *infra* note 31.

A. Part A—Information in the Prospectus

1. Item 1—Front and Back Cover Pages

Form N-1A requires certain information to appear on the outside front cover page of a fund's prospectus. In an effort to "unclutter" the prospectus cover page and avoid repeating information contained in the proposed risk/return summary at the beginning of the prospectus, the proposed amendments would simplify the disclosure currently required on the front cover page and require certain information to be included on the outside back cover page.

The front cover page would be required to include a fund's name.³⁵ The front cover page also would include the disclaimer about the Commission's approval of the securities being offered and the accuracy and adequacy of the information included in the prospectus. The wording of the disclaimer would be simplified and the disclaimer would no longer be required to be in large capital letters and bold-faced type.³⁶

The proposed amendments would not require cover page disclosure that would repeat information required to be disclosed in the proposed risk/return summary. This information would include the identification of the type of fund offered (or a brief statement of the fund's investment objectives) and certain disclosure required for money market funds.³⁷ The proposed amendments also would no longer require a fund to provide statements that the prospectus sets forth concise information about the fund that a prospective investor ought to know before investing and should be retained for future reference.³⁸ These statements

³⁵ When a prospectus relates to one or more series, both the name of the registrant and the series would be required to appear on the back cover page. The name of the registrant may assist investors in obtaining additional information about a particular series or the registrant.

³⁶ Proposed amendments to rule 481(b)(1) under the Securities Act (17 CFR 230.481(b)(1)). Amended rule 481(b)(1) would require disclosure to the effect that: The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus and any representation to the contrary is a criminal offense. The same revisions to Item 501 of Regulation S-K (17 CFR 229.501) were recently proposed for corporate registrants. See Plain English Release, *supra* note 11. See also Disclosure Simplification Task Force Report, *supra* note 15, at 18.

³⁷ See *infra* notes 52–58 and accompanying text.

³⁸ See Disclosure Simplification Task Force Report, *supra* note 15, at 19 (recommending elimination of many legal warnings to make the cover page more inviting and present any necessary legal warnings in a more readable style and format). See also Plain English Release, *supra* note 11, at 3160.

do not appear to be particularly helpful to investors.

The proposed amendments would consolidate disclosure regarding the availability of additional information about a fund on the back cover page of the fund's prospectus. The back cover page would include disclosure about the availability and date of the SAI, which would be revised to require a telephone number that investors could use to obtain the SAI without charge. To ensure prompt delivery of the SAI to those investors who request it, a new Instruction would require a fund to send the SAI within 3 days of the receipt of a request.³⁹ The back cover page would include information (if applicable) regarding the incorporation by reference of a fund's SAI or financial information from the annual report into the prospectus and disclosure that other information about the fund has been filed with, and is available from, the Commission.⁴⁰ The back cover page also would include disclosure about how a shareholder can make inquiries about the fund.⁴¹

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

The proposed amendments would require at the beginning of every prospectus a risk/return summary that would provide key information about a fund's investment objectives, principal strategies, risks, performance, and fees. This information would be required to appear in a specific sequence and to be presented in a question-and-answer format.⁴² The proposed question-and-answer format, frequently used by many funds, is intended to help communicate the required information effectively.

³⁹ See Letter from Paul Schott Stevens, Senior Vice President and General Counsel, ICI, to Barry P. Barbash, Director, Division of Investment Management, SEC, at 11 (May 20, 1996) ("ICI Survey Letter") (recommending that funds be required to deliver shareholder reports within 3 days of a request); Form N-2 (17 CFR 274.11a-1) (requiring closed-end investment companies to include a telephone number for investors to request a SAI and to send the SAI within 2 days of a request).

⁴⁰ The disclosure would be revised to indicate, among other things, that information about the fund (including the SAI) is available on the Commission's Internet Web site. Currently, only funds that disseminate prospectuses electronically are required to provide disclosure about the Commission's Web site. See Investment Company Act Release No. 21946 (May 9, 1996) (61 FR 24652).

⁴¹ This information currently is required by Item 6(e) to be disclosed in the prospectus. To assist the Division in responding to investor inquiries, the proposed amendments would require a fund to include its Investment Company Act file number on the back cover page.

⁴² The information in the risk/return summary would be substantially the same as the first 4 items of the proposed profile. See Profile Release, *supra* note 1.

The Commission requests comment on this format and whether funds instead should be permitted to choose the type of heading for the prescribed disclosure topics.

The risk/return summary, like the profile, is intended to respond to investors' strong preference for summary information about a fund in a standardized format.⁴³ Since the profile would be optional, the proposed risk/return summary in the prospectus would provide all investors with key information about a fund in a standardized, easily accessible place that could be used to evaluate and compare fund investments.

a. Investment Objectives and Principal Strategies

The proposed amendments would require a fund to disclose in the risk/return summary its investment objectives and to summarize, based on the information provided in the prospectus, how the fund intends to achieve those objectives. The summary would be required to identify the fund's principal investment strategies, including the particular types of securities in which the fund invests or will invest principally, and any policy of the fund to concentrate in an industry or group of industries.⁴⁴

A fund also would be required to inform investors about the availability of additional information about the fund's investments in the fund's shareholder reports. Fund annual reports typically include the MDFP, which discusses a fund's strategies that materially affected the fund's performance during the most recent fiscal year.⁴⁵ The Division's review of and experience with MDFP disclosure indicates that the annual report may be a valuable resource for investors.⁴⁶ The

⁴³ Focus Group participants, for example, expressed strong support for summary information in a standardized format. In addition, in connection with the profile initiative, many individual investors have written to the Commission about the need for concise, summary information relating to a fund. See also *Profile Prospectuses: An Idea Whose Time Has Come*, Mutual Funds Magazine, Aug. 1996, at 11. In keeping with the goal of providing key information in a standardized summary, proposed General Instruction C.2(b) would not permit a fund to include in the risk/return summary information that is not required or otherwise permitted.

⁴⁴ The criteria for determining whether a particular strategy is a principal strategy and disclosure about concentration policies are discussed *infra* notes—and accompanying text.

⁴⁵ See proposed Item 5 (current Item 5A) (requiring the MDFP to be disclosed in the prospectus unless disclosed in the annual report).

⁴⁶ Commenters also have cited the annual report as a source of valuable information. See Voss Sanders, *Dear Shareholder*, Morningstar Mutual Funds, Apr. 26, 1996, at 1 (commenting on improved annual report disclosure).

proposed amendments would require the risk/return summary to contain 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 _____.⁴⁷

The proposed amendments would require this disclosure to appear in the context of information about a fund's investments. The Commission requests comment on this approach. For example, would disclosure about the availability of additional information about the fund (e.g., the fund's shareholder reports, SAI, or any other information) be more helpful to investors if the disclosure was presented under a separate caption in the risk/return summary or on the back cover page of the prospectus? Should this disclosure include an explanation about the various types of information available to investors?⁴⁸

b. Risks

Narrative Risk Disclosure. The proposed amendments would require a fund to summarize the principal risks of investing in the fund based on the information provided in the prospectus. More than 75% of the individual investors commenting on the Risk Concept Release specifically favored requiring a risk summary in fund prospectuses. This disclosure would be required to focus on the risks to which the fund's particular portfolio as a whole is subject and the circumstances reasonably likely to affect adversely the fund's net asset value, yield, and total return.⁴⁹ The risk section of the risk/return summary also would include disclosure about the risk of losing money and identify the types of investors for whom the fund may be an

⁴⁷ If applicable, a fund could indicate that its annual and semi-annual reports are available on its Internet site or by E-mail. In addition, a fund that provides its MDPF in the prospectus or a money market fund (which is not required to prepare a MDPF) would omit the second sentence of this disclosure.

⁴⁸ As proposed, the back cover page of the prospectus would include more general disclosure about the availability of additional information.

⁴⁹ See *infra* notes 133–138 and accompanying text. The proposed amendments also would require a fund to disclose, if applicable, that it is non-diversified. See section 5(b) of the Investment Company Act (15 U.S.C. 80a–5(b)) (regarding diversified and non-diversified funds). To help investors understand this disclosure, a non-diversified fund would be required to describe the effects and to summarize the risks of non-diversification.

appropriate or inappropriate investment (based on, for example, an investor's risk tolerance and time horizon).⁵⁰ A fund, at its option, could discuss in the risk section the potential rewards of investing in the fund as long as the discussion provides a balanced presentation of the fund's risks and rewards.⁵¹

Special Risk Disclosure Requirements. Certain types of funds are required to provide special disclosure on the cover page of their prospectuses. Form N–1A requires a money market fund to 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.⁵² The Form requires a tax-exempt money market fund that concentrates its investments in a particular state (a “single state money market fund”) to disclose that the fund 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.⁵³ The disclosure required for all money market funds is intended to alert investors that investing in a money market fund is not without risk.⁵⁴ The disclosure required for single state money market funds seeks to inform investors about the particular risks associated with a single state money market fund and to distinguish these funds from other money market funds.⁵⁵ In addition, a fund that is

⁵⁰ Information about whether a fund is appropriate for particular types of investors is designed to help investors evaluate and compare funds based on their investment goals and individual circumstances. In the pilot profiles, this information is presented under a separate caption relating to the appropriateness of an investment for certain investors. Because this information is closely related to the risks of investing in a fund, the proposed amendments would integrate this disclosure into the risk section of the risk/return summary.

⁵¹ The 1996 Profile Letter, in contrast, permits disclosure about the rewards of investing in a fund only if presented separately from disclosure about the fund's risks. 1996 Profile Letter, *supra* note 16, at 2.

⁵² Item 1(a)(vi).

⁵³ Item 1(a)(vii). This disclosure is not required if the fund limits its investments in a single issuer to no more than 5% of the fund's assets.

⁵⁴ See Investment Company Act Release Nos. 17589 (July 17, 1990) (55 FR 30239, 30247) and 18005 (Feb. 20, 1991) (56 FR 8113, 8123) (proposing and adopting revisions to rules relating to money market funds).

⁵⁵ Unlike other money market funds, a single state money market fund is not subject to the issuer diversification requirements of rule 2a–7 (17 CFR 270.2a–7). In March 1996, the Commission adopted amendments to rule 2a–7 that would require a single state money market fund, with respect to 75% of its assets, to invest no more than 5% of its assets in securities of a single issuer. Investment

advised by or sold through a bank is required 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.⁵⁶ This disclosure is intended to alert investors that funds advised by or sold through banks are not federally insured.⁵⁷

The proposed amendments would move the required disclosure for all money market funds, single state money market funds, and funds advised by or sold through banks to the risk section of the risk/return summary. Since this disclosure relates directly to a particular fund's risks, it would appear to be more meaningful to investors when presented in the context of information about the fund's risks. The proposed approach also would help streamline the prospectus cover page and avoid repeating information on the cover page and in the risk section of the risk/return summary.

The proposed amendments would revise the wording of the current disclosure required for all money market funds and funds advised by or sold through banks. The proposed amendments would simplify the disclosure that fund shares are not federally insured as follows:

An investment in the fund is not insured or guaranteed by the FDIC or any other government agency.

The proposed amendments also would simplify the technical disclosure that a money market fund may not be able to maintain a stable net asset value. The revised disclosure would state:

Although the fund seeks to preserve the value of your investment at \$1.00 per share,

Company Act Release No. 21837 (Mar. 21, 1996) (61 FR 13956). The Commission has suspended the compliance date for these amendments pending the adoption of technical changes to amended rule 2a–7. Investment Company Act Release Nos. 22135 (Aug. 13, 1996) (61 FR 42786) and 22283 (Dec. 10, 1996) (61 FR 66621).

⁵⁶ 1994 GCL, *supra* note 28, at II.B; Letter to Registrants from Barbara J. Green, Deputy Director, Division of Investment Management, SEC (May 13, 1993) (“Division Bank Letter”).

⁵⁷ See Division Bank Letter, *supra* note 56. See also *Testimony of Ricki Helfer, Chairman, 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).

it is possible to lose money by investing in the fund.⁵⁸

The Commission requests comment whether the disclosure required for all money market funds, single state money market funds, and funds advised by or sold through banks should be moved from the prospectus cover page to the risk/return summary. If the disclosure is moved from the cover page, should it be highlighted in a typographically distinctive manner (e.g., boldface or italics)? The Commission also requests comment on the wording of the proposed disclosure. In addition, the Commission requests comment whether the disclosure for single state money market funds should continue to be required. The disclosure, for example, may exaggerate the risks of a single state money market fund since these funds, like all money market funds, may purchase only those portfolio instruments that meet the credit quality and maturity requirements of rule 2a-7.⁵⁹

⁵⁸The proposed disclosure, which would be required to be given by a money market fund in place of the proposed general risk disclosure about losing money, seeks to strike a balance between the potential to lose money in a money market fund and the relative risk of losing money in a money market fund as compared to other types of funds.

⁵⁹Among other things, rule 2a-7 requires a money market fund to invest in securities that are

Risk/Return Bar Chart and Table. The proposed amendments would require a bar chart showing a 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 one, five, and ten fiscal years to those of a broad-based securities market index.⁶⁰ The bar chart would illustrate graphically a fund's past risks by showing changes in the fund's returns over time. The information in the table would enable investors to evaluate a fund's performance and risks relative to "the market." Over 75% of individual investors responding to the Risk Concept Release favored a bar chart presentation of fund risks.⁶¹ Focus

rated in one of the two highest categories by a nationally recognized statistical rating organization (or, if unrated, to be of comparable quality) and have a maturity of 13 months or less. Rules 2a-7 (a)(9) and (c)(3).

⁶⁰Proposed Item 2(c)(2).

⁶¹Risk Concept Release, *supra* note 18. See also ICI Risk Survey, *supra* note 26, at 21, 37 (51% of survey participants indicated they were very confident about using a bar chart to compare the risks of different funds and 49% of survey participants indicated they were very confident in using a bar chart to assess the risks of a single fund). 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 ten-year

Group participants found both a bar chart and tabular presentation of fund performance helpful in evaluating and comparing fund investments, particularly when the table included return information for a broad-based index.

The proposed amendments would require the bar chart and table to be included in the risk section of the risk/return summary under a subheading that refers to both risk and performance.⁶² To help investors use the information in the bar chart and table, the proposed amendments would require a fund to explain how the information illustrates the fund's risks and performance.

An example of the risk/return bar chart and table is set forth below:

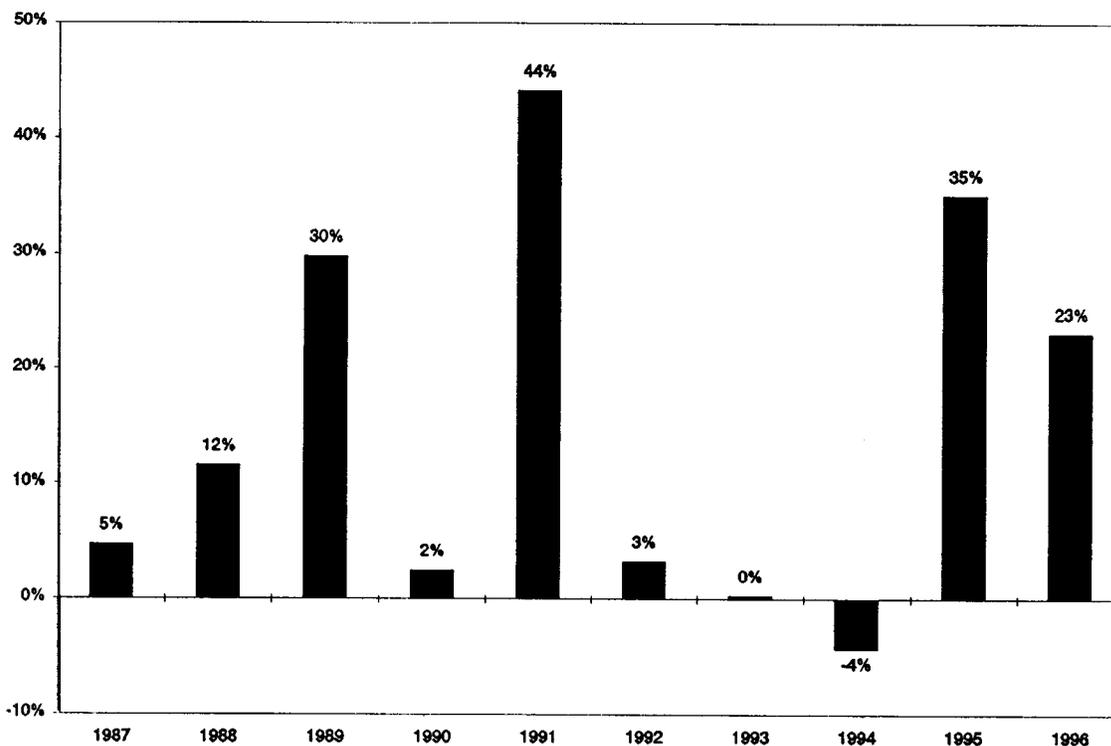
BILLING CODE 8010-01-P

bar chart reflecting a money market fund's returns. 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) ("Money Market Prospectus Comment Summary").

⁶²The 1996 Profile Letter, in contrast, requires the bar chart and table to appear under a caption relating to a fund's past performance. 1996 Profile Letter, *supra* note 16, at 2.

RISK AND PERFORMANCE INFORMATION

The bar chart and table shown below illustrate the XYZ Stock Fund's risks and performance 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.



Average Annual Total Returns (for the periods ending December 31, 1996)	Average Annual Total Returns		
	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.

Bar Chart Return Information.⁶³ The proposed amendments would require the bar chart to reflect annual returns for a fund's last 10 calendar years.⁶⁴ Requiring calendar year returns is intended to help investors compare the risks of different funds over similar time periods.

A fund would calculate the annual returns in the bar chart by using the same method required for calculating annual returns in the financial highlights information included in fund prospectuses.⁶⁵ Like the returns in the financial highlights information, the returns in the bar chart would not reflect sales loads. Sales loads can be accurately and fairly reflected in 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.⁶⁶ Reflecting sales loads in the bar chart, however, may be impracticable. In addition, reflecting the payment of sales loads may be less important in the bar chart than in the table, since the bar chart is intended primarily to depict fund risks graphically. The proposed amendments would require a fund that charges sales loads to disclose that sales loads are not reflected in the bar chart and that if the loads were included, returns would be less than those shown.⁶⁷

The Commission requests comment on the proposed bar chart. In particular,

⁶³ Funds generally file Form N-1A electronically on the Commission's electronic data gathering analysis and retrieval system ("EDGAR"). Although EDGAR currently does not reproduce graphic images like the bar chart, the EDGAR rules require a fair and accurate narrative description or tabular presentation in the place of any omitted material. Rule 304(a) of Regulation S-T (17 CFR 232.304(a)). The Commission anticipates future modifications that would permit EDGAR to reflect graphic images on electronically-filed documents.

⁶⁴ A fund also would be required to present the corresponding numerical return next to each bar. The proposed amendments would require a fund to have at least one calendar year of returns before including the bar chart. A fund that includes a single bar in the bar chart or a fund that does not include the bar chart because the fund does not have annual returns for a full calendar year would be required to modify, as appropriate, the narrative explanation accompanying the bar chart and table (e.g., by stating that the information shows the fund's risks and performance by comparing the fund's performance to a broad measure of market performance). The proposed amendments would require the bar chart of a fund in operation for fewer than 10 years to include annual returns for the life of the fund.

⁶⁵ Instruction 1(a) to proposed Item 2(c)(2). See also Instruction 3 to proposed Item 9(a) (regarding the calculation of total returns provided in financial highlights information).

⁶⁶ As a consequence, the fund's average annual returns in the table would reflect the payment of sales loads (if any).

⁶⁷ Instruction 1(a) to proposed Item 2(c)(2) (requiring similar disclosure if a fund charges account fees).

the Commission requests comment whether the bar chart communicates information about fund risks effectively or whether the bar chart has limitations that detract from its usefulness.⁶⁸ The Commission requests comment whether the bar chart should include return information for additional or different time periods. For example, should the bar chart reflect return information for shorter time periods (e.g., calendar quarters) or longer time periods (e.g., for the life of the fund when more than 10 years)? The Commission also requests comment whether the return information in the bar chart should include sales loads and, specifically, how sales loads could be accurately and fairly reflected.

Bar Chart Presentation for More than One Fund. The proposed amendments would not limit the number of funds for which return information could be included in a single bar chart. While the proposed approach would give funds flexibility in preparing the bar chart, including return information in a single bar chart for a number of funds could make the graphic presentation of the bar chart complex and difficult to follow.⁶⁹ Bar charts included in the pilot profiles reflect information for only one fund.⁷⁰ In addition, Focus Group participants found prototype bar charts that included information for 6 funds (i.e., 6 bars per year) to be confusing. The Commission requests comment whether the number of funds that could be included in a single bar chart should be limited to one fund or to some other number of funds (e.g., 2, 4, or no more than 6 funds). This approach could enhance the clarity of the bar chart presentation. Limiting the number of funds that could be included in a single bar chart, however, could require a prospectus offering several funds to include more than one chart, which, in turn, could complicate bar chart disclosure and lengthen the prospectus.

Multiple Class Funds. In contrast to the proposed approach with respect to the bar chart presentation for funds, the

⁶⁸ See, e.g., Remarks by Steven M.H. Wallman, Commissioner, SEC, before the ICI's 1995 Investment Company Directors Conference and New Directors Workshop, Washington, DC. (Sept. 22, 1995) (discussing circumstances when a bar chart's presentation of fund risks may be confusing to investors, such as when bar charts use different scales).

⁶⁹ While the proposed amendments would not impose a specific limit on the number of funds included in a bar chart, the presentation of the bar chart would be subject to the general requirement that information in the prospectus be set forth in a clear and understandable manner. See proposed General Instruction C.1(a).

⁷⁰ See 1995 Profile Letter, *supra* note 16 (permitting the pilot profiles to include disclosure for a single fund or series of a fund).

proposed amendments would require a multiple class fund to include annual return information in the bar chart for only one class.⁷¹ Unlike individual funds, classes represent interests in the same investment portfolio, and the returns of each class differ only to the extent the classes do not have the same expenses. Including return information for all classes appears to be unnecessary to illustrate the risks of investing in the fund. In addition, the proposed amendments would require the table accompanying the bar chart to provide return information for each class so that investors would be able to identify and compare the performance of the classes offered in the prospectus.

The proposed amendments would require the bar chart to reflect annual return information for the class offered in the prospectus that has returns for the longest period over the last 10 years. This approach is intended to provide the greatest amount of information about changes in the fund's returns. When two or more classes have returns for at least 10 years or returns for the same period but fewer than 10 years, the fund would be required to provide annual returns for the class with the greatest net assets as of the end of the most recent calendar year. Focusing on the class with the greatest net assets is intended to provide returns in the bar chart for a "representative" class offered in the prospectus.

The proposed requirements may result in including returns in the bar chart for a class that has lower annual operating expenses (and better performance) than other classes offered in the prospectus. The Commission considered several other approaches, including requiring a fund to show returns in the bar chart for the class with the highest annual operating expenses. The Commission has not proposed these alternatives because they would make the bar chart requirements too complex and difficult to apply. In addition, the bar chart primarily is designed to show graphically the risks of investing in a fund and not the costs of investing in the fund. The Commission requests comment whether the bar chart presentation for multiple class funds should be limited to one class. If so, should the selection of the class be made on a basis other than that proposed?

Tabular Presentation of Fund and Index Returns. The proposed amendments would require the table accompanying the bar chart to present the fund's average annual returns for the

⁷¹ Instruction 3(a) to proposed Item 2(c)(2).

last one, five, and ten fiscal years (or for the life of the fund, if shorter)⁷² and to compare that information to the returns of a broad-based securities market index.⁷³ Requiring comparative return information for a broad-based securities market index would provide investors with a basis for evaluating a fund's performance and risks relative to the market.⁷⁴ The proposed approach also would be consistent with the line graph presentation of fund performance required in MDFP disclosure.⁷⁵

Consistent with the requirements for preparing the MDFP line graph, the proposed amendments would allow a fund to include return information for other indexes, including a "peer group" index of comparable funds.⁷⁶ Focus Group participants indicated that comparing fund returns to a broad-based securities market index and a peer group index could be useful in evaluating and comparing fund investments.⁷⁷

⁷²The proposed amendments would require a money market fund to provide its 7-day yield in the table. A non-money market fund would be permitted to disclose its yield, and any fund (including a money market fund) would be permitted to disclose its tax-equivalent yield. When yield information is disclosed, a fund would be required to include a telephone number that investors can use without charge to obtain current yield information.

⁷³A fund's average annual returns would be calculated 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 proposed Item 2(c)(2) (incorporating the requirements of proposed Item 21). See also proposed Item 5 (requiring sales loads and recurring shareholder account fees to be reflected in the return information shown in the MDFP line graph). Consistent with the preparation of the MDFP line graph, if a fund has not had the same adviser for the last 10 years, the fund would be permitted 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.

⁷⁴See MDFP Adopting Release, *supra* note 14, at 19054. Consistent with the preparation of the MDFP line graph, if a fund changes indexes, the fund would be required to explain the reasons for the change and provide information for both the newly selected and the former index.

⁷⁵See Instruction 5 to proposed Item 5(b) (defining "appropriate broad-based securities market index"). See also 1996 Profile Letter, *supra* note 16, at 3 (permitting a fund, at its option, to compare its returns to those of an appropriate broad-based securities market index).

⁷⁶If an additional index is included, the fund would be required to discuss the additional index in the narrative explanation accompanying the bar chart and table. Instruction 2(b) to proposed Item 2(c)(2).

⁷⁷Other commenters have suggested different ways to provide comparative return information. See Letter from John C. Bogle, Chairman of the Board, The Vanguard Group, to Jonathan G. Katz, Secretary, SEC, at 3 (July 28, 1995) (File No. S7-10-95) (recommending disclosure of fund and market index returns on a quarterly basis over a 10-year period); Letter from Daniel Pierce, Chairman of

The Commission believes that a comparison of a fund's performance to a broad-based securities market index can assist investors in evaluating the risk of a fund investment. The proposed amendments would include this information in the table accompanying the bar chart to minimize the complexity of the graphic presentation of a fund's risks and returns. The Commission recognizes that other presentations could improve fund risk disclosure and requests comment on alternative approaches.⁷⁸ Specifically, the Commission requests comment on requiring the annual returns of a broad-based securities market index (and any optional peer group or other index) to appear in the bar chart instead of the table. By providing investors with a graphic illustration of the relationship between the returns of the fund and the index(es), this approach could help investors evaluate the comparative risk of the fund and the index(es). Including additional bars or lines for index comparisons in the bar chart, however, could complicate the chart (especially if the chart included return information for more than one fund) and make it difficult for investors to follow.

As an alternative to, or in addition to the bar chart, the Commission requests comment on requiring a fund to show its highest and lowest annual returns (or "range" of returns) over a ten-year or other period compared with the same information for a broad-based market index (and any optional peer group or other index). This information, which could be presented as a separate table or included in the proposed table showing a fund's average annual returns, could help investors assess fund risks.

3. Item 3—Risk/Return Summary: Fee Table

Form N-1A would continue to require a fee table in the prospectus, which summarizes the sales loads and expenses associated with an investment in a fund. The fee table seeks to provide uniformity, simplicity, and comparability in fee disclosure.⁷⁹ Consistent with this objective, the Commission is proposing several

Board, Scudder, Stevens & Clark, Inc., to Jonathan G. Katz, Secretary, SEC, at 2 (July 28, 1995) (recommending that a fund's returns be compared to both a benchmark index (e.g., the S&P 500) and a risk-free measure (e.g., the yield on 3-month U.S. Treasury bills)); ICI Survey Letter, *supra* note 39, at 8-9 (recommending that a fund be permitted to show either a broad-based market index or an appropriate index of fund performance).

⁷⁸Focus Group participants did not express a preference as to the placement of this information in the bar chart or accompanying table.

⁷⁹See Fee Table Adopting Release, *supra* note 14, at 3194.

amendments designed to improve fee table disclosure.

a. Fee Table Example

Form N-1A requires an "Example" to accompany the fee table that discloses the cumulative amount of fund expenses over one, three, five, and ten year periods based on a hypothetical investment of \$1,000 and an annual 5% return. The Example primarily is intended to provide information about the cost of investing in one fund that can be compared with similar information about another fund.⁸⁰ Focus Group participants, however, had difficulty understanding and using the information in the Example.

The proposed amendments seek to improve the Example by requiring a fund to provide a specific narrative description that explains the purpose of the information presented. The revised Form would require 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.⁸¹

To further assist investors in understanding the Example, the proposed amendments would revise the description of how the Example is calculated.⁸²

The proposed amendments also would increase the initial hypothetical investment in the Example from \$1,000 to \$10,000. The increase is intended to reflect a typical fund investment (many funds have minimum investments exceeding \$1,000) and more closely approximate the amount of expenses that may be paid over time.⁸³ Using the \$10,000 figure in the Example also would be consistent with the \$10,000

⁸⁰*Id.* (also noting that the Example provides information about the cost of a fund investment).

⁸¹Like the current Form, the proposed amendments would require a fund that charges sales loads on reinvested dividends to disclose that these loads are not reflected in the Example and that, if the loads were included, the expenses reflected in the Example would be higher. Instruction 4(d) to proposed Item 3 would require this disclosure to follow the Example to avoid informing investors about what is not included in the Example before they have an opportunity to review what is included.

⁸²See proposed Item 3. Instruction 4(a) to proposed Item 3 also would permit a fund to adjust the expenses included in the Example to reflect the completion of the amortization period for expenses associated with the initial organization of the fund. See Money Market Fund Prospectus Release, *supra* note 14, at 38458 (proposing this change).

⁸³See 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 \$10,000-25,000, with the median investment probably in the range of \$6,000-7,000).

hypothetical initial account value used in the MDFP line graph.⁸⁴

The Commission requests comment on the proposed amendments. The Commission also requests comment whether the Example communicates useful information to investors and, specifically, whether the Example should continue to be required. The Commission requests comment about other ways to provide information that investors can use to compare the costs of fund investments.

b. Shareholder Account Fees

Instructions to the fee table require a fund to include, under the caption "Other Expenses," fees that are charged to all shareholder accounts.⁸⁵ Funds that have account fees (e.g., account maintenance fees) typically charge these fees as a fixed dollar amount and disclose the fees in a separate line item to the fee table.⁸⁶ Because account fees are paid directly by shareholders and are not fund operating expenses, the proposed amendments would create a new line item in the shareholder transaction section of the fee table that would describe the type of account fees charged by a fund.⁸⁷ Like the fee table requirements applicable to sales loads, the proposed amendments would require a fund to show the maximum account fee imposed.⁸⁸

⁸⁴ See proposed Item 5(b).

⁸⁵ Instruction 10 to Item 2(a).

⁸⁶ Certain funds charge shareholder account fees as a percentage of assets invested. A small number of funds charge account fees based on the fund's average net assets.

⁸⁷ Instruction 2(d) to proposed Item 3. This instruction would address when account fees must be included in the fee table. For example, account fees would be required in the fee table even if a fund waived the fees for certain shareholders, such as employees of the fund's investment adviser and investors with large account balances. In certain circumstances, case-by-case determinations would continue to be made regarding the inclusion (or exclusion) of account fees from the fee table based on the number and type of shareholders subject to the fee and the services provided.

⁸⁸ If an account fee is charged only to accounts that do not meet a certain threshold (e.g., accounts under \$2,500) or if an account fee is non-recurring (e.g., it is paid to open or close an account), a fund would be permitted to disclose the threshold or the type of fee imposed in a parenthetical to the caption or in a footnote to the fee table.

In computing the expenses shown in the Example, Instruction 4(d) to proposed Item 3 would allow the allocation of account fees when they are charged to invest in more than one fund. See Money Market Fund Prospectus Release, *supra* note 14, at 38461 (proposing this change). In addition, a fund that charges account fees based on a minimum investment requirement would be permitted to prorate its account fees for purposes of the Example if the fund's minimum account requirement exceeds \$10,000 (the proposed hypothetical investment). For instance, adjusting an account fee of \$100 to \$50 would be appropriate to avoid overstating the fee in the Example when the fund's minimum investment requirement is \$20,000.

c. Improving and Simplifying Fee Table Presentation

Fee Table Narrative. Form N-1A requires a fund to provide a narrative description following the fee table explaining the purpose of the table.⁸⁹ To help investors use the information presented, the proposed amendments would require the narrative explanation to appear before (rather than after) the fee table and to include disclosure to the following effect:

This table describes the fees and expenses you may pay in connection with an investment in the fund.

New Fee Table Headings and Captions. The fee table is divided into two sections: "Shareholder Transaction Expenses" and "Annual Fund Operating Expenses." Captions beneath the two general headings list the fees that make up transaction and operating expenses. The general heading for the shareholder transaction section of the fee table refers to shareholder transaction "expenses" and captions underneath this heading refer to sales "loads" and redemption and exchange "fees." The proposed amendments would revise the shareholder transaction section so that the general heading and captions consistently refer to "fees." As a result of this change, captions relating to sales loads would refer to "sales fees." Since some investors are familiar with the term "load" and many funds use the term "no load" in marketing materials, however, these captions would include the term "load" in parentheses (e.g., "Maximum Sales Fee (Load) Imposed on Purchases").⁹⁰

The proposed amendments also would revise the caption "12b-1 Fees," which includes any distribution and other expenses a fund pays under a rule 12b-1 plan.⁹¹ The proposed amendments would change the caption to "Marketing (12b-1) Fees."⁹² Retaining the designation "12b-1" would enable investors familiar with rule 12b-1 plans to identify those fees in the fee table. The Commission requests comment whether another caption (e.g., "Distribution (12b-1) Fees") would be more appropriate.

To help explain the difference between the fees paid by shareholders and expenses paid by the fund, the proposed amendments would require the following parentheticals after each

⁸⁹ Instruction 1 to Item 2(a).

⁹⁰ See ICI Survey Letter, *supra* note 39 (changing the caption from "sales load" to "sales charge," without using the term "load").

⁹¹ 17 CFR 270.12b-1.

⁹² Focus Group participants indicated that the term "marketing fees" would help them understand the expenses included in the line item.

heading: "Shareholder Fees (fees paid directly from your account)" and "Annual Fund Operating Expenses (expenses that are deducted from the fund's assets)."⁹³

Fee Schedules. Instructions to the fee table permit a fund to include a tabular presentation within the fee table that shows a range of deferred sales loads over time and a range of exchange fees.⁹⁴ Since the presentation of a table within the larger fee table tends to complicate the fee disclosure and may discourage investors from reviewing the information presented, the proposed amendments would no longer permit this disclosure in the fee table. Like the current Form, the proposed amendments would continue to permit a fund to explain the range of deferred sales loads or exchange fees in a footnote.⁹⁵

Expense Reimbursement and Fee Waiver Arrangements. Instructions to the fee table require a fund that has an expense reimbursement or fee waiver arrangement to reflect the arrangement in the fee table if the reimbursement or waiver will continue.⁹⁶ The proposed amendments would clarify that a fund is required to reflect expense reimbursement and fee waiver arrangements without regard to whether the arrangement has been guaranteed for a full fiscal year.⁹⁷ This approach is intended to assure that investors are informed about decreases in expense reimbursement and fee waiver arrangements that could affect the fund's performance.

Other Expenses. Instructions to the fee table permit a fund to subdivide the line item for "Other Expenses" into 3 subcategories of its own choosing.⁹⁸ Since some funds identify the fees that make up this line item by adding a parenthetical following the "Other Expenses" caption, the proposed amendments would permit a fund to

⁹³ See ICI Survey Letter, *supra* note 39 (enclosing a prototype profile that includes similar explanatory information).

⁹⁴ Instructions 5 and 7 to Item 2(a).

⁹⁵ Instructions 2(a)(i) and 2(c) to proposed Item 3. The GCLs require a fund to disclose wire redemption charges in a footnote to the fee table. 1991 GCL, *supra* note 28, at II.G. Given the small amount of these fees (typically \$5 to \$10 per redemption) and since these fees are charged only when shareholders elect to receive redemption proceeds by wire, the proposed amendments would not require disclosure of wire redemption charges in the fee table. A fund may include this disclosure in a footnote to the table or together with other prospectus disclosure regarding redemption procedures.

⁹⁶ Instruction 13 to Item 2(a).

⁹⁷ Instruction 3(e) to proposed Item 3. See Money Market Fund Prospectus Release, *supra* note 14, at 38458 (proposing this clarification).

⁹⁸ Instruction 10(b) to Item 2(a).

identify the expenses that comprise this line item *either* under separate subcaptions or in a parenthetical following the "Other Expenses" caption.⁹⁹ When subcaptions are provided, the proposed amendments would clarify that the subcaptions must identify the 3 largest expenses that comprise "Other Expenses."

4. Item 4—Investment Strategies and Risk Disclosure

Prospectus disclosure about fund investments and risks typically consists of descriptions of each type of security in which a fund may invest and the risks associated with those securities. 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. Disclosing information about each type of security in which a fund might invest does not appear to help investors evaluate how the fund's portfolio will be managed or the risks of investing in the fund. This disclosure also adds substantial length and complexity to fund prospectuses, contributing to investor perceptions that prospectuses are too complicated and discouraging investors from reading a fund's prospectus.¹⁰⁰

The Commission believes that prospectus disclosure would be more useful to investors 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.¹⁰¹ Since funds are intended to offer investors professional investment management,¹⁰² the focus of investment disclosure should be 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 seek to

encourage prospectus disclosure that would help investors understand how a fund's portfolio will be managed. The proposed amendments are designed to be consistent with, and to implement more effectively, the Commission's intention in adopting Form N-1A that the prospectus should describe a fund's "fundamental characteristics."¹⁰³

a. Investment Objectives and Implementation of Investment Objectives

To assist investors in identifying funds that meet their investment needs, the proposed amendments, like the current Form, would require prospectus disclosure of a fund's investment objectives.¹⁰⁴ The proposed amendments, however, would change the disclosure requirements regarding how a fund intends to achieve its investment objectives. 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 will be used in connection with investing in those securities.¹⁰⁵ Form N-1A also requires disclosure about "significant investment policies or techniques" that a fund intends to use, subject to certain limitations.¹⁰⁶

One of those limitations directs a fund to limit prospectus disclosure about practices that place no more than 5% of a fund's assets at risk.¹⁰⁷ Many funds disclose in their prospectuses

information about securities and investment practices that do not and may not ever place more than 5% of a fund's assets at risk, often to retain the flexibility to exceed the 5% threshold in the future.¹⁰⁸

The proposed amendments would eliminate the 5% standard. Instead, the revised Form would require a fund to disclose in the prospectus the principal strategies to be used to achieve its investment objectives, including the particular type or types of securities in which the fund will invest principally.¹⁰⁹ This approach is designed to shift prospectus disclosure away from an inventory of the various investments a fund may make and to focus disclosure on a fund's overall portfolio management. Whether a particular strategy (including a strategy to invest in a particular type of security) would constitute a principal strategy that must be disclosed in the fund's prospectus would depend 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.¹¹⁰ In determining what is a principal strategy, a fund would consider, among other things, the amount of assets expected to be committed to the strategy, the amount of assets expected to be placed at risk by the strategy, and the likelihood of losing some or all of those assets.¹¹¹ The proposed amendments would require disclosure about non-principal strategies to appear in the SAI.¹¹²

Focusing disclosure requirements on a fund's principal strategies is intended to improve prospectus disclosure by eliminating the need for disclosure about securities and strategies that do not have an important role in achieving the fund's investment objectives. Under the revised Form, for example, it generally would be unnecessary to include in the prospectus disclosure about a fund's cash management

¹⁰⁸ A fund, within a short period of time, may increase its holdings of a particular type of security from less than 5% of its assets to more than 5%, which, under the current Form, requires a different level of disclosure about the security. To avoid having to amend their prospectuses in response to changes in portfolio holdings, many funds include information in their prospectuses about any security or strategy that might at some point place more than 5% of the fund's assets at risk.

¹⁰⁹ Proposed Item 4(b)(1). A bond fund, for example, typically would discuss the maturities, durations, ratings, and issuers of the bonds in which the fund principally invests.

¹¹⁰ Instruction 1 to proposed Item 4(b)(1) would define a strategy to include any policy, practice, or technique used to achieve a fund's investment objectives.

¹¹¹ Instruction 2 to proposed Item 4(b)(1).

¹¹² Proposed Item 12(b).

⁹⁹ Instruction 3(c)(iii) to proposed Item 3.

¹⁰⁰ See Money Market Fund Prospectus Release, *supra* note 14, at 38456 (giving examples of lengthy and technical disclosure about portfolio holdings frequently found in money market fund prospectuses).

¹⁰¹ The ICI has recommended that prospectus disclosure focus primarily on a fund's broad investment objectives, practices, and associated risks, and not on particular types of securities in which the fund invests. See, e.g., 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) ("1995 ICI Disclosure Letter").

¹⁰² See, e.g., 1 T. Lemke, G. Lins & A.T. Smith III, Regulation of Investment Companies § 1.01, at 1-1 (1996).

¹⁰³ See Form N-1A Proposing Release, *supra* note 13, at 815; Form N-1A Adopting Release, *supra* note 12, at 39729. See also Money Market Fund Prospectus Release, *supra* note 14 (proposing amendments that would permit money market funds to include in their prospectuses "basic, general statements about their investment objectives and portfolio composition").

¹⁰⁴ Proposed Item 4(a). A fund may refer to its investment objectives as investment goals. If a fund's investment objectives can be changed without a shareholder vote, the proposed amendments would continue to require disclosure of this fact in the prospectus. Although not required by Form N-1A, some funds disclose in the prospectus that their investment objectives may not be changed without a shareholder vote. Since investors generally do not expect fund investment objectives to change, this disclosure does not appear to help investors evaluate and compare funds. This disclosure would be moved to the SAI and proposed Item 12(c)(1)(vii) would require a fund to disclose when its investment objectives may not be changed without a shareholder vote.

¹⁰⁵ Item 4(a)(ii)(B)(1).

¹⁰⁶ Item 4(a)(ii)(D).

¹⁰⁷ Item 4(b)(ii). Item 4(b)(i) 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 proposed Item 4(b)(1) would retain this limitation by providing that a negative strategy is not a principal strategy. Avoiding disclosure about negative strategies should help keep prospectus disclosure focused on what the fund will do to achieve its investment objectives, rather than on what the fund will not do.

practices (e.g., entering into overnight repurchase agreements) since these practices are not typically among a fund's principal strategies.¹¹³

To further focus prospectus disclosure on a fund's principal strategies, the proposed amendments would require the prospectus to explain in general terms how the fund's adviser decides what securities to buy and sell.¹¹⁴ This disclosure is intended to provide investors with general information about the fund's investment approach and how the fund's portfolio will be managed. The information might describe, for example, whether an equity fund emphasizes value or growth, or blends the two approaches, or whether the fund invests in stocks based on a "top-down" analysis of economic trends or a "bottom-up" analysis that focuses on the financial condition and competitiveness of individual companies.¹¹⁵

Concentration. Form N-1A requires a fund to disclose in its prospectus any policy to concentrate (i.e., invest 25% or more of its total assets) in a particular industry or group of industries. The proposed amendments would retain this requirement since concentrating in an industry or group of industries is likely to be a principal strategy in achieving a fund's investment objectives.¹¹⁶ The proposed amendments also would continue to require a single state money market fund to discuss its concentration in securities issued by a particular state or by issuers located within a state.

Temporary Defensive Positions. Many funds adopt policies permitting them to take "temporary defensive positions" to avoid losses in response to adverse market, economic, political, or other conditions. When a fund assumes a temporary defensive position, the fund may depart from its usual investment

strategies without a shareholder vote or specific notice to shareholders. The GCLs require a fund to disclose, if applicable, certain information about the possibility of taking temporary defensive positions.¹¹⁷

The proposed amendments would continue to require disclosure about temporary defensive positions to alert investors of potential changes in a fund's investments.¹¹⁸ 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. The Commission requests comment on requiring this information given the temporary nature of defensive positions and the proposed approach of focusing prospectus disclosure on a fund's principal strategies.¹¹⁹

Portfolio Turnover. The Guides require a fund that has had in the past year, or anticipates having, a portfolio turnover rate of approximately 100% or more to disclose in the prospectus any tax and brokerage consequences that will result from the fund's "high" portfolio turnover rate.¹²⁰ The proposed amendments would require prospectus disclosure only when a fund anticipates having a portfolio turnover rate of 100% or more in the coming year.¹²¹ This approach is designed to focus prospectus disclosure on a fund's expected portfolio practices, not past practices.¹²²

The proposed amendments would require disclosure of the fund's 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).¹²³ Disclosing the anticipated turnover rate and explaining its meaning are intended to enable investors to evaluate how actively a fund buys and sells portfolio securities and to compare the anticipated portfolio turnover rates of different funds.

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.

The Commission requests comment on the proposed requirements. In particular, the Commission requests comment whether a fund with a portfolio turnover rate of 100% should be viewed as having a high portfolio turnover rate. An informal review by the Division of fund portfolio turnover rates suggests that nearly half of all funds have portfolio turnover rates exceeding 100%. The Commission also requests comment whether specific information about portfolio turnover should be required in connection with prospectus disclosure about a fund's investment strategies. In response to current disclosure requirements, for example, funds often make generic statements that do not appear to help investors evaluate and compare fund investments.¹²⁴

Classification and Subclassification. All funds that register on Form N-1A are classified as management companies and subclassified as open-end companies under sections 4 and 5 of the Investment Company Act.¹²⁵ Funds may be further subclassified as diversified or non-diversified under section 5. Form N-1A requires a fund to disclose its classification and subclassifications in the prospectus.¹²⁶

The proposed amendments would move to the SAI disclosure about a fund's legal status as an open-end management company.¹²⁷ This information is technical and repetitive of information required to be disclosed in the prospectus. A fund's classification as a management company is communicated to investors through

¹¹³ Similarly, in most cases, a fund would be able to move to the SAI disclosure about hedging strategies that limit downside risk, securities lending, purchasing securities on a "when-issued" basis, short selling "against the box" to defer recognition of gains or losses, and investing in illiquid or restricted securities, since these strategies typically are not principal strategies.

¹¹⁴ Proposed Item 4(b)(2). The prospectus of a value-oriented fund might state, for example, that the fund's adviser selects stocks it considers to be undervalued by recognized measures of economic value such as earnings, cash flow, and book value. A growth and income fund might state that it invests in the stock of issuers whose earnings have increased from year to year and issuers that have paid dividends continuously for a certain period of time.

¹¹⁵ Because proposed Item 4(b)(2) would require the prospectus to explain *in general terms* how the fund's adviser decides what securities to buy and sell, a fund (or its adviser) would not be required to provide proprietary information about its investment strategies.

¹¹⁶ Proposed Item 4(b)(3).

¹¹⁷ 1994 GCL, *supra* note 28, at II.E.

¹¹⁸ Proposed Item 4(e). *See also* Fund Names Release, *supra* note 2 (permitting a fund with a name suggesting that the fund focuses on a particular type of investment to make other investments while assuming a temporary defensive position).

¹¹⁹ In light of these considerations, the revised Form, unlike the 1994 GCL, *supra* note 28, would not require a fund to disclose the types of securities in which it may invest while taking a temporary defensive position.

¹²⁰ Guide 5.

¹²¹ Proposed Item 4(b)(4). A fund that expects its portfolio turnover rate to be less than 100% would continue to be required to disclose the anticipated rate of its portfolio turnover in the SAI. As under the current requirements, a money market fund would not be required to discuss portfolio turnover in either the prospectus or the SAI. *See* MDPF Adopting Release, *supra* note 14, at 19051 n.3.

¹²² Information about a fund's portfolio turnover rate in previous fiscal years is disclosed in the financial highlights table. *See* proposed Item 9.

¹²³ Like any other fund, a "balanced" fund would discuss its anticipated turnover rate with respect to its entire portfolio. Guide 5, in contrast, requires a balanced fund to discuss portfolio turnover separately for the stock and bond portions of the fund's portfolio.

¹²⁴ Prospectuses, for example, state that high portfolio turnover rates will likely result in higher transaction costs and may increase taxable gains.

¹²⁵ *See* 15 U.S.C. 80a-4, -5.

¹²⁶ Item 4(a)(i)(B).

¹²⁷ Proposed Item 12(a).

disclosure about the fund's investment adviser and portfolio management. A fund's open-end status is communicated through disclosure about the redeemability of the fund's shares.

The proposed amendments also would move to the SAI disclosure that a fund is diversified under section 5. Since most funds are diversified, this information (which often includes a technical description of the diversification requirements under the Investment Company Act) does not appear to provide investors with useful information about a particular fund. A non-diversified fund would continue to be required to disclose its non-diversified status in the prospectus.¹²⁸ To avoid technical disclosure, the proposed amendments would require 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.

Section 8 Policies. Section 8 requires a fund to disclose in its registration statement the fund's policies with respect to borrowing money, issuing senior securities, underwriting securities issued by other persons, investing in real estate or commodities, and making loans.¹²⁹ Most funds do not engage in these practices to a significant extent, because the Investment Company Act limits their use by funds.¹³⁰ Although they are not required to do so, some funds disclose in the prospectus their policies with respect to the practices identified under section 8.¹³¹ To provide a clearer directive to disclose this information in the SAI, the proposed amendments specifically would require disclosure about these policies in the SAI.¹³²

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 effectively communicate 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 appear to effectively communicate the overall risks of investing in the fund. Disclosing the risks of each portfolio investment, rather than the overall risks of investing in a fund, does not appear to help investors evaluate a particular fund or compare the risks of different funds.

Consistent with the proposal to shift prospectus disclosure away from an inventory of the various securities that may be held by a fund, the proposed amendments would revise Form N-1A to shift prospectus disclosure away from the risks associated with specific securities. The revised Form would require a fund to disclose the risks to which the fund's particular portfolio as a whole is expected to be subject.¹³³ As part of this disclosure, a fund would be required to discuss the circumstances that are reasonably likely to affect adversely the fund's net asset value, yield, or total return.

The proposed approach is intended to improve fund risk disclosure. Comments from both individual investors and members of the fund industry responding to the Risk Concept Release strongly supported improving narrative discussions of fund risks. In a survey of fund investors sponsored by the ICI ("ICI Risk Survey"), respondents were asked to consider various methods that could be used to describe risk and expressed the greatest overall confidence about using narrative information.¹³⁴

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.¹³⁵ 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 opposed requiring disclosure of quantitative risk information.¹³⁶ These commenters, among other things, questioned the value of quantitative risk measures, suggesting 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.¹³⁷ The ICI Risk Survey suggests that investors who use quantitative measures may not understand the measures well enough to use them for the special purposes for which they were designed.¹³⁸

Based on these and other considerations, the Commission is not proposing at this time to require funds to use quantitative risk measures. The proposed prospectus risk/return summary and the proposed amendments to the narrative discussion of risk within the prospectus are designed to improve fund risk disclosure, without raising the issues associated with Commission-mandated quantitative information. The Commission's determination not to require quantitative risk information is not intended to suggest, however, that this information is not useful to some investors. Funds that wish to include quantitative risk disclosure in their prospectuses may continue to do so.

Item 5—Management's Discussion of Fund Performance

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 the prospectus or the annual report. The Division's review of and experience with MDFP disclosure indicates that the discussion of fund performance and the line graph have been successful in providing fund shareholders with useful, comparative information about a fund's performance. Other than technical and conforming changes, the proposed amendments would not modify these disclosure requirements.

¹³⁶ See, e.g., 1995 ICI Risk Comment Letter, *supra* note 101, at 10-16 (questioning, among other things, the feasibility of developing a single, all-encompassing measure of fund risks and whether quantitative information would be understood and accurately used by fund investors).

¹³⁷ See also P. Bernstein, *Against the Gods: The Remarkable Story of Risk* 269-303 (1996) (suggesting it is inaccurate to assume that investors evaluate investments based on risk and return and that investors' attitudes towards risk may overrule a decision that may be appropriate based on quantitative measures).

¹³⁸ ICI Risk Survey, *supra* note 26, at 14-18 (e.g., 45% of respondents who had used duration, 44% of those who used standard deviation, and 23% of those who used beta reported using these measures to estimate future performance).

¹²⁸ Proposed Item 4(d).

¹²⁹ 15 U.S.C. 80a-8. Section 8 also requires a fund to disclose in the registration statement its policies on concentration and portfolio turnover, *see supra* note 121 and accompanying text, and any other policies that the fund deems fundamental or that may not be changed without shareholder approval.

¹³⁰ See, e.g., section 18(f) (15 U.S.C. 80a-18(f)) (limiting a fund's ability to issue senior securities and borrow money); section 12(c) (15 U.S.C. 80a-12(c)) (limiting the underwriting practices of a diversified fund).

¹³¹ See Items 4(a)(ii)(C), 4(b); Guides 3, 14.

¹³² Proposed Item 12(c). If a policy specified in section 8 is a principal strategy, Instruction 4 to proposed Item 4(b)(1) would require the fund to disclose the policy in the prospectus.

¹³³ Proposed Item 4(c). See *supra* note 101. 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 have to disclose the risks of the growth stocks in which the fund invests as opposed to describing the general risks of equity securities.

¹³⁴ ICI Risk Survey, *supra* note 26, at 21, 37.

¹³⁵ Risk Concept Release, *supra* note 18, at 17176. Standard deviation measures the volatility of a fund's total return; beta measures the sensitivity of a fund's total return to the market's performance; and duration measures the sensitivity of a bond fund's return to changes in interest rates. *Id.* at 17174-76.

Funds typically include the MDFP in their annual reports, rather than in their prospectuses, which may be, in part, due to the relevance of the MDFP to other current financial information appearing in annual reports. As a result of recent legislation, the Commission has more flexibility to specify the content of annual reports and to require additional disclosure in annual and semi-annual reports as necessary or appropriate in the public interest or for the protection of investors.¹³⁹ The Commission is not proposing to modify fund shareholder report disclosure requirements in this release, but recognizes that revisions to shareholder report requirements could further enhance the disclosure provided to fund investors. The Division currently is evaluating whether funds should be required to include the MDFP in the annual report. The Division also is considering whether certain disclosure required by Form N-1A would be more useful to investors in shareholder reports. An "integrated" approach to registration and reporting requirements could improve the overall information about a fund available to investors.¹⁴⁰ Shareholder reports, for example, could disclose information about a fund's investments and operations for a current period (such as information about the fund's portfolio turnover or the tax consequences of investing in the fund). Fund prospectuses could disclose more general information about the fund's intended investments and operations (such as its investment objectives, anticipated risks, and fees). The Commission requests comment on specific prospectus disclosure that could be more appropriately disclosed in a fund's shareholder reports.

¹³⁹ National Securities Markets Improvement Act of 1996, Pub. L. No. 104-290 (1996) (the "1996 Securities Act"), section 206(f) (amending section 30 of the Investment Company Act (15 U.S.C. 80a-29)) to add new paragraph (f)).

¹⁴⁰ 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) ("Integrated Registration Statement Release") (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 "integrated" 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).

Item 6—Management, Organization, and Capital Structure

a. Management and Organization

The proposed amendments would streamline the current disclosure requirements concerning a fund's management and organization. Consistent with the intent of Form N-1A to provide investors with essential information about a fund, the revised Form would require prospectus disclosure about the fund's investment adviser, the advisory fee paid by the fund, and the person or persons primarily responsible for the day-to-day management of the fund's portfolio.¹⁴¹ As in the current Form, the revised Form would require prospectus disclosure of fees paid to any sub-adviser.¹⁴² The Commission requests comment whether information about individual sub-advisory fees helps investors evaluate and compare fund investments or whether this disclosure obscures the aggregate investment advisory fee associated with investing in a particular fund. The Commission requests specific comment whether a fund should be required to disclose only the fund's aggregate investment advisory fee.

The revised Form would continue to require prospectus disclosure of any material pending legal proceedings involving the fund, investment adviser, or principal underwriter, which would be incorporated in the management and organization Item because the disclosure is related to the other management information required to be disclosed.¹⁴³ The proposed amendments would modify or move to the SAI other disclosure requirements relating to the management and organization of a fund because this information generally is common to all funds and does not appear to assist an investor in evaluating a particular fund or comparing different funds.

Board of Directors. Form N-1A requires a fund's prospectus to include a brief description of the responsibilities of the fund's board of directors under the applicable laws of the jurisdiction where the fund is organized.¹⁴⁴ The proposed amendments would move this

¹⁴¹ Proposed Items 6(a)(1), (2).

¹⁴² See section 2(a)(20) (15 U.S.C. 80a-2(a)(20)) (defining "investment adviser" to include a sub-adviser).

¹⁴³ Item 9. The legal proceedings disclosure is intended to be substantially the same as Item 103 of Regulation S-K under the Securities Act (17 CFR 229.103) and would be modified to conform to Item 103. See Investment Company Act Release No. 19155 (Nov. 30, 1992) (57 FR 56862) (modifying Form N-2 to conform to Item 103).

¹⁴⁴ Item 5(a).

disclosure to the SAI.¹⁴⁵ The responsibilities of fund directors are governed by the Investment Company Act and state law.¹⁴⁶ The summary, generic disclosure typically provided in fund prospectuses about the responsibilities of directors does not appear to assist an investor in deciding whether to invest in a particular fund.

The Commission requests comment whether disclosure in the prospectus of the names, experience, and compensation of a fund's directors, along with an address, telephone number, or other means to contact the directors would be more useful to investors. The Commission also requests comment whether this information should be given only for a fund's independent directors, accompanied by disclosure of the number of independent directors in relation to the number of directors on the fund's board.¹⁴⁷ The Commission requests specific comment whether information about a fund's directors is essential information that should be required to be disclosed in the prospectus to assist investors in deciding whether to invest in a fund. The Commission also requests specific comment whether information about the compensation paid to directors warrants prospectus disclosure in light of the relatively small portion of a fund's total expenses represented by director compensation.

Controlling Persons. Form N-1A requires disclosure of the name of any person that controls the fund's investment adviser and the name of any person that controls the fund.¹⁴⁸ The proposed amendments would no longer

¹⁴⁵ Proposed Item 13(a).

¹⁴⁶ These responsibilities 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* § 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")).

¹⁴⁷ Section 10(a) of the Investment Company Act (15 U.S.C. 80a-10(a)) requires that at least 40% of a fund's board of directors consist of individuals who are not "interested persons," as defined in section 2(a)(19) (15 U.S.C. 80a-2(a)(19)).

¹⁴⁸ Items 5(b)(i) and 6(b).

require this information in the prospectus. Transactions between controlling persons and a fund are subject to restrictions under the Investment Company Act.¹⁴⁹ When transactions with controlling persons are permitted, a fund's board of directors is responsible for reviewing and approving the arrangements.¹⁵⁰ Disclosure about controlling persons of the investment adviser and the fund would continue to be available in the SAI.¹⁵¹

Affiliated Brokers. Form N-1A requires a fund to state, if applicable, that the fund engages in brokerage transactions with affiliated persons and allocates brokerage transactions based on the sale of fund shares.¹⁵² The proposed amendments would no longer require this disclosure in the prospectus. The information called for by the Form typically results in disclosure that restates applicable legal requirements.¹⁵³ This type of generic disclosure does not appear to assist investors in deciding whether to invest in a particular fund. Payment of commissions to affiliated brokers is governed by section 17(e) of the Investment Company Act and rule 17e-1. In addition, the SAI requires disclosure about affiliated brokers and how brokers are selected to effect the fund's portfolio transactions.¹⁵⁴

¹⁴⁹ See, e.g., section 17 (15 U.S.C. 80a-17) and rules 17a-6, 17d-1 (17 CFR 270.17a-6, .17d-1).

¹⁵⁰ See *supra* note 146.

¹⁵¹ Items 14(a), 15(a)(1). In addition, information about any person who owns 10% or more of a fund's voting stock is required to be disclosed in a proxy statement seeking shareholder approval of the fund's investment adviser, which provides more timely information about the possibility that a person could influence the approval of the advisory contract. Item 22(c)(4) of Schedule 14A (17 CFR 240.14a-101) under the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*) (the "Securities Exchange Act").

¹⁵² Item 5(g).

¹⁵³ Some funds, for example, state that an affiliated broker may effect portfolio transactions for the fund on an exchange or board of trade, if the commissions, fees, or other remuneration received by the affiliated broker are reasonable and fair compared to the commissions, fees, or other remuneration paid to other brokers or futures commission merchants in connection with comparable transactions involving similar securities being purchased or sold on an exchange or board of trade during a comparable period of time. With respect to allocation of brokerage transactions, funds typically disclose that they may consider sales of fund shares as a factor in selecting brokers to execute portfolio transactions.

¹⁵⁴ Item 16. The Commission has undertaken initiatives designed to improve disclosure about fund brokerage transactions by requiring certain expenses paid by directed brokerage to be treated as an expense in a fund's financial statements and fee table and by requiring average commission rates to be disclosed in the financial highlights information. Investment Company Act Release No. 21221 (July 21, 1995) (60 FR 38918).

Form of Organization. Form N-1A requires disclosure about a fund's form of organization (along with the date) and state of incorporation.¹⁵⁵ Since most funds are organized in one of a few states as corporations or business trusts that seek to provide limited liability to their shareholders,¹⁵⁶ disclosure about a fund's organization does not appear to help investors evaluate a particular fund or compare different funds. The proposed amendments would move this disclosure to the SAI,¹⁵⁷ unless a fund is organized outside the United States and registered under the Investment Company Act pursuant to section 7(d).¹⁵⁸

Expenses. Form N-1A requires a fund to provide a statement about its expenses.¹⁵⁹ The proposed amendments would no longer require this disclosure since it duplicates information about the fund's expenses required in the fee table. Expense information also would continue to be available in the fund's financial statements and SAI.¹⁶⁰

b. Capital Structure

Form N-1A requires certain information to be disclosed in the prospectus about a fund's shares and capital structure. The proposed amendments would reorganize and revise these disclosure requirements consistent with the intent of Form N-1A to focus prospectus disclosure on essential information about a particular fund that would assist an investor in deciding whether to invest in that fund.

Transferability, Material Obligations, and Potential Liabilities. Form N-1A requires disclosure about any limits on the transferability of, and material obligations or potential liabilities associated with, a fund's shares. Funds rarely restrict share transferability and generally are organized as corporations or business trusts to provide limited liability to their shareholders. If, however, any restrictions or special liabilities applied to the purchase of a

¹⁵⁵ Item 4(a).

¹⁵⁶ See SEC, Division of Investment Management, Protecting Investors: A Half Century of Investment Company Regulation, Investment Company Governance 275 (May 1992) (reporting that in 1991 over 84% of funds were organized as Maryland corporations or Massachusetts business trusts) (*citing* Lipper Analytical Services, The "Form" Used by Mutual Funds to Organize State by State (Mar. 1991) (survey prepared for the ICI)).

¹⁵⁷ Proposed Item 11(a). Information about a fund's operating history (including information about the lack of an operating history for a newly organized fund) would continue to be provided in the bar chart, performance table, and the fee table in the risk/return summary, and in the financial highlights information.

¹⁵⁸ 15 U.S.C. 80a-7(d). See proposed Item 6(b).

¹⁵⁹ Item 5(f).

¹⁶⁰ Item 15.

fund's shares, information about the restrictions or liabilities would appear to help an investor decide whether to invest in the fund. As a consequence, the proposed amendments would continue to require this information in the prospectus.¹⁶¹ The Commission requests comment on the types and likelihood of restrictions and liabilities imposed on fund shares and on what disclosure, if any, should be required.

Shareholder Voting Rights. Form N-1A requires a fund to discuss shareholder voting rights and disclose if the rights of shareholders can be modified by other than a majority vote.¹⁶² Because the Investment Company Act requires all fund shares to have equal voting rights¹⁶³ and prescribes the vote required for significant matters,¹⁶⁴ voting rights disclosure typically is generic and does not appear to assist investors in evaluating and comparing funds. The proposed amendments would move this disclosure to the SAI.¹⁶⁵

Senior Securities. Form N-1A requires disclosure about any class of senior securities issued by a fund.¹⁶⁶ The proposed amendments would delete this requirement. Senior securities issued by funds are limited to borrowings, which are subject to significant legal restrictions under the Investment Company Act¹⁶⁷ and

¹⁶¹ For funds organized as business trusts under Massachusetts law, prospectuses sometimes include disclosure that, under Massachusetts law, fund shareholders may, under certain limited circumstances, be held personally liable as partners for the fund's obligations. In adopting Form N-1A, 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. 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). The Division's review of fund prospectuses indicates that certain funds include disclosure about Massachusetts business trusts and state that shareholder liability is remote. Funds should continue to evaluate whether this disclosure is necessary.

¹⁶² Item 6 (a), (c).

¹⁶³ Section 18(i) (15 U.S.C. 80a-18(i)).

¹⁶⁴ See, e.g., section 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).

¹⁶⁵ Proposed Item 17(a).

¹⁶⁶ Item 3(b).

¹⁶⁷ Section 18(f)(1) (requiring, for example, asset coverage of at least 300% for bank borrowings).

required to be disclosed in a fund's financial statements.¹⁶⁸

Fund Classes. Form N-1A requires disclosure about "other classes" of fund shares (excluding borrowings that are not senior securities).¹⁶⁹ The proposed amendments would delete this requirement. Funds are not permitted to issue other classes of shares except for series funds under section 18f-2 and related rule 18f-2, and multiple class funds under rule 18f-3. When a series or class is offered in the prospectus, disclosure about the series or class would be required to be given.

7. Item 7—Shareholder Information

Form N-1A requires prospectus disclosure about a fund's purchase and redemption procedures, dividends and distributions, and the tax consequences of investing in the fund. While most of these disclosure requirements would remain substantially the same, the proposed amendments would make certain revisions, particularly with respect to tax disclosure, to focus this disclosure on essential information about a fund.¹⁷⁰

a. Purchase and Redemption

Pricing of Fund Shares. Form N-1A requires a fund to explain that the price of fund shares is based on the fund's net asset value and to identify the methods used to value the fund's assets.¹⁷¹ The proposed amendments would no longer require this information in the prospectus because it does not appear to assist investors in deciding whether to invest in a particular fund. The pricing of fund shares and the valuation of portfolio securities are technical, subject to legal requirements, and disclosed in the SAI.¹⁷²

The proposed amendments would continue to require a fund to state when calculations of net asset value are made and that the price at which a purchase

is effected is based on the next calculation of net asset value after the order is placed. A fund also would continue to be required to identify in a general manner any national holidays when shares will not be priced and to identify specifically any additional local or regional holidays when the fund will be closed.¹⁷³

Although not specifically required, many funds disclose in their prospectuses how net asset value is determined. Funds, for example, often disclose that net asset value equals assets minus liabilities divided by the number of outstanding shares.¹⁷⁴ Although this disclosure tends to be generic because the calculation of net asset value is the same for all funds, the Commission requests comment whether disclosure about what constitutes net asset value would be helpful to investors.

Principal Underwriter. Form N-1A requires a fund to disclose the name and address of the fund's principal underwriter, and whether any affiliated person of the principal underwriter is an affiliated person of the fund.¹⁷⁵ This information would be moved to the SAI because it does not appear to provide investors with essential information that would assist them in deciding whether to invest in a particular fund.¹⁷⁶ The name and address of the underwriter typically are not necessary for investors to purchase and redeem a fund's shares.¹⁷⁷ The fund's board of directors is responsible for approving the fund's contract with the principal underwriter. Conflicts of interest that could influence transactions between a principal underwriter and a fund are governed by legal protections in the Investment Company Act.¹⁷⁸

Service Providers. Form N-1A requires a fund to disclose the identity

¹⁷³ See Guide 28; proposed Item 7(a)(2). The Instruction to proposed Item 7(a)(2) would incorporate the disclosure required by Guide 28 concerning funds with portfolio securities listed on foreign exchanges that trade on weekends and U.S. holidays. If a fund does not price on days when foreign securities are traded, the Instruction would require the fund to disclose in the prospectus that the net asset value of the fund's shares may change on days when shareholders cannot purchase or redeem fund shares.

¹⁷⁴ See section 2(a)(41) (15 U.S.C. 80a-2(a)(41)) and rule 2a-4 (17 CFR 270.2a-4).

¹⁷⁵ Item 7(a).

¹⁷⁶ Proposed Item 15(b).

¹⁷⁷ Fund investors often effect purchases and redemptions through financial intermediaries (such as broker-dealers and banks) without the involvement of the fund's underwriter. When information about the underwriter is necessary to effect purchase and redemption requests, a fund would disclose this information in the prospectus in connection with the description of how to purchase and redeem the fund's shares.

¹⁷⁸ See *supra* note .

of any person (other than the investment adviser) who provides significant administrative or business management services for the fund (e.g., an administrator), including a description of, and the fees paid for, the services.¹⁷⁹ The Form also requires the name and address of the fund's transfer agent and dividend paying agent.¹⁸⁰ The proposed amendments would move this disclosure to the SAI.¹⁸¹ While a fund could include in the prospectus information about its service providers in describing the fund's purchase and redemption procedures, disclosure about persons that perform administrative or "back-office" functions unrelated to the purchase and sale of fund shares does not appear to assist investors in evaluating and comparing fund investments. The fund's investment adviser or board of directors is responsible for overseeing the fund's contractual arrangements with service providers and their costs to the fund. In addition, the costs incurred for services provided to the fund are included in the prospectus fee table and in the fund's financial statements.¹⁸²

Account Transfers. The GCLs require certain information about transfers of shares held in street name accounts.¹⁸³ This disclosure would be retained in a simplified form in the prospectus. In particular, the proposed amendments would require a fund to disclose any restrictions on, or costs associated with, transferring shares held in street name to inform investors holding shares in street name about these restrictions and costs.¹⁸⁴

b. Tax Consequences

General Tax Disclosure. Form N-1A requires a fund to describe in its prospectus the tax consequences of an investment in the fund.¹⁸⁵ Prospectus tax disclosure often includes lengthy information about the tax treatment of the fund and, in some cases, the tax treatment of specific securities held by

¹⁷⁹ Item 5(d).

¹⁸⁰ Item 5(e).

¹⁸¹ Proposed Item 15(h). In addition, Item 5(b)(ii) requires a statement, if applicable, that the investment adviser is responsible for overall management of the fund's business. This disclosure would be provided in the SAI in response to proposed Item 15(c)(1).

¹⁸² Rule 6-07 of Regulation S-X (17 CFR 210.6-07); Instruction 3(c) to proposed Item 3.

¹⁸³ 1990 GCL, *supra* note 28, at II.D.

¹⁸⁴ Proposed Item 7(b)(7).

¹⁸⁵ Item 6(g). Form N-1A provides guidance about the tax disclosure to be provided in the prospectus, indicating, among other things, that if a fund intends to qualify under Subchapter M of the Internal Revenue Code (I.R.C. 851 *et seq.*), the fund should state that it will distribute all of its net income and gains to shareholders and that these distributions are taxable.

¹⁶⁸ The financial statement requirements in Regulation S-X specify that a fund disclose in its balance sheet any amounts payable to banks and others for borrowings. Rule 6-04 of Regulation S-X (17 CFR 210.6-04).

¹⁶⁹ Item 6(d).

¹⁷⁰ Information about purchase and redemption procedures typically takes up a number of pages in fund prospectuses and may contribute to the perception that prospectuses are too long and complicated. At the same time, this disclosure (e.g., information on dividend reinvestment plans, automatic investment programs, and checkwriting privileges) appears to be included in prospectuses in response to investor interest in the information.

¹⁷¹ Item 7(b)(i).

¹⁷² Item 19(b). A fund's securities are required to be valued based on market quotations or, in the absence of market quotations, at fair value as determined by the board of directors. See section 2(a)(41) (15 U.S.C. 80a-2(a)(41)) (defining "value"). See also rule 2a-7 (regarding the amortized cost method of valuation for money market funds).

a fund.¹⁸⁶ This disclosure tends to obscure information about the tax treatment of a fund's distributions and the direct tax consequences to investors of investing in the fund.

The proposed amendments would revise the tax disclosure required in fund prospectuses. In particular, the proposed amendments would require information about a fund's qualification under Subchapter M of the Internal Revenue Code to appear in the SAI.¹⁸⁷ Subchapter M confers pass-through tax treatment for funds that meet certain conditions.¹⁸⁸ Disclosure about Subchapter M, which relates to the tax treatment of the fund, does not appear to help investors evaluate the tax consequences of investing in the fund. In addition, because virtually all funds qualify for pass-through tax treatment, disclosure about the conditions of, or a fund's qualification under, Subchapter M does not appear to help investors evaluate or compare fund investments.¹⁸⁹

¹⁸⁶ Many prospectuses, for example, include information about the conditions a fund must meet to qualify for pass-through tax treatment under Subchapter M and, when applicable, the tax treatment of private activity bonds, foreign currency contracts, and other fund investments. In addition, tax disclosure frequently includes technical jargon by 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." See proposed General Instruction C.1(a), which would continue to instruct a fund not to use technical or legal terminology in the prospectus.

¹⁸⁷ Proposed Item 19(a). The proposed amendments would eliminate the requirement that a fund disclose in the SAI any special tax consequences resulting from offering more than one class of capital stock or being a series fund, since the tax consequences of investing in a multiple class or series fund are no different from those of investing in a single class or single series. While in the past a series fund could offset the gains of one portfolio against the losses of another, a series fund no longer may offset the gains and losses of its various portfolios. See I.R.C. 851(h)(1) (treating each portfolio of a series fund as a separate entity for tax purposes).

¹⁸⁸ To qualify for pass-through tax treatment under Subchapter M, a fund must, among other things: derive at least 90% of its gross income from certain specified sources; derive less than 30% of its gross income from the sale of securities and certain other specified investments held for less than 3 months; meet certain diversification requirements; and distribute at least 90% of its taxable income (which does not include capital gains) and net tax-exempt income for the year. See I.R.C. 512(a)(5), 851.

¹⁸⁹ In the rare case of a fund that does not expect to qualify for pass-through tax treatment under Subchapter M, proposed Item 7(d)(3) would require the fund to explain in the 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

To focus prospectus disclosure on the tax consequences of investing in a particular fund, the proposed amendments would require a description of the tax consequences to shareholders of buying, holding, exchanging, and selling the fund's shares.¹⁹⁰ The proposed amendments would require a fund to state, as applicable, that the fund intends to make distributions that may be taxed as ordinary income and capital gains. If a fund, as a result of its investment objectives or strategies, expects its distributions primarily to consist of ordinary income (or short-term capital gains that are taxed as ordinary income) or long-term capital gains, the fund would be required to provide disclosure to that effect. Providing specific disclosure about the anticipated tax consequences of a fund's distributions could help investors decide whether to invest in a particular fund and to compare fund investments.¹⁹¹ The proposed amendments also would require a fund to state that it will provide each shareholder by a specified date (typically, January 31 of each year) with specific information about the amount of ordinary income and capital gains, if any, distributed during the prior calendar year.¹⁹²

The proposed amendments would require a fund to disclose that its distributions will be taxable whether received in cash or reinvested in additional shares. The proposed amendments also would require a fund offering exchange privileges to disclose that exchanging shares of one fund for shares of another fund will be treated as a sale and that any gain from the transaction may be subject to federal income tax. Disclosure about the tax treatment of reinvested dividends and share exchanges would alert investors that reinvested distributions and exchange transactions are subject to tax.

Special Tax Disclosure for Tax-Exempt Funds. The proposed amendments would require a tax-exempt fund to inform investors of the special tax consequences associated

Internal Revenue Code with respect to its distributions would be required to disclose in the prospectus the consequences of paying the tax. See I.R.C. 4982.

¹⁹⁰ Proposed Item 7(d).

¹⁹¹ The proposed disclosure requirement would apply to funds that have investment objectives or strategies that make it possible to anticipate the tax consequences of the fund's distributions (e.g., funds described as "tax-managed," "tax-sensitive," or "tax-advantaged" often have investment strategies to maximize long-term capital gains and minimize ordinary income; conversely, money-market funds have investment objectives and strategies to maximize ordinary income).

¹⁹² See Item 6(g)(iii) (consistent with this requirement).

with investing in the fund.¹⁹³ Because investors may be unaware that a portion of the distributions received from a tax-exempt fund may be subject to federal, state, or local income taxes, the proposed amendments would require a tax-exempt fund to disclose, as applicable, that:

(1) The fund may invest a portion of its assets in securities that generate income that is not exempt from federal or state income tax;¹⁹⁴

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

(3) Any capital gains distributed by the fund may be taxable; and

(4) A portion of the tax-exempt income distributed by the fund may be treated as a tax preference item for purposes of determining whether the shareholder is subject to the federal alternative minimum tax.¹⁹⁵

Item 8—Distribution Arrangements

a. Placement of Prospectus Disclosure

Rule 12b-1 fees and sales loads directly affect an investor's return on a fund investment, and information about these charges is important to many investors. Currently, narrative explanations about a fund's distribution arrangements may appear in different places in the prospectus, making it difficult for investors to review and compare additional information about rule 12b-1 fees and sales loads.¹⁹⁶ The proposed amendments would require information about distribution arrangements to appear together in the prospectus.¹⁹⁷ This approach would help investors locate information designed to assist them in evaluating a

¹⁹³ The proposed amendments also would require a tax-exempt fund to amend the general tax disclosures discussed above to reflect that the fund intends to distribute tax-exempt income.

¹⁹⁴ A fund that holds itself out as a tax-exempt fund can invest up to 20% of its assets in securities that generate taxable income. See Investment Company Act Release No. 9785 (May 31, 1977) (42 FR 29130); Guide 1. See also Fund Names Release, *supra* note .

¹⁹⁵ See Guide 30 (requiring substantially the same disclosure); Letter from Mary Joan Hoene, Associate Director, SEC, to Matthew P. Fink, Senior Vice President and General Counsel, ICI (Nov. 3, 1987) (if a fund uses a name that implies its distributions will be exempt from federal income tax, it may not consider any investments in municipal obligations that pay interest subject to the alternative minimum tax as part of the 80% of the fund's assets that must be invested in tax-exempt securities).

¹⁹⁶ A summary of a fund's fees and expenses, which includes information about rule 12b-1 fees and sales loads, is contained in the fee table.

¹⁹⁷ Proposed General Instruction C.2(a). Proposed Item 8 would consolidate prospectus disclosure requirements for rule 12b-1 fees, sales loads, and multiple class and master-feeder funds. Consistent with the proposed amendments to the fee table requirements, rule 12b-1 fees and sales loads would be referred to as "marketing (12b-1) fees" and "sales fees (loads)" in the narrative discussion of a fund's distribution arrangements in the prospectus.

particular fund and comparing fund investments.

b. Rule 12b-1 Plans

Prospectus Disclosure. Form N-1A requires detailed prospectus disclosure about rule 12b-1 plans.¹⁹⁸ The technical nature of this disclosure tends to obscure information about the amount of fees paid under a fund's rule 12b-1 plan. Although distribution fees are charged on an on-going basis in lieu of, or in addition to, sales loads, investors may not appreciate the continuing nature of distribution fees or that distribution fees cumulatively could exceed other types of sales charges.¹⁹⁹

The proposed amendments would revise disclosure requirements for rule 12b-1 plans to focus prospectus disclosure on the fees paid under these plans. Focusing disclosure on fee information, rather than on technical, legal matters relating to a fund's rule 12b-1 plan, would appear to provide greater assistance to an investor in deciding whether to invest in the fund. In particular, the prospectus of a fund with a rule 12b-1 plan would be required to state the amount of the fee and provide disclosure to the following effect:

- The fund has a rule 12b-1 plan that allows the fund to pay fees for the sale and distribution of its shares; and
- Since 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 loads.

The proposed requirement to disclose that, over time rule 12b-1 fees will increase investment costs and may exceed other types of sales loads is intended to help an investor appreciate the continuing effect of rule 12b-1 fees on an investment in a fund. Similar, but more complex, disclosure is required by rules of the National Association of Securities Dealers, Inc. ("NASD").²⁰⁰ The

¹⁹⁸ Item 7(e), (f).

¹⁹⁹ See Updegrave, *Fund Investors Need to Go Back to School*, Money, Feb. 1996, at 98, 100 (of approximately 1,400 investors surveyed by Money magazine and The Vanguard Funds Group, only 22% knew that rule 12b-1 fees are charged against fund assets to pay for distribution of fund shares). Based on information compiled by the Division from Form N-SAR (17 CFR 274.101) filings, approximately 50% of funds charge rule 12b-1 fees.

²⁰⁰ Rule 2830(d)(4) of the NASD Conduct Rules (NASD Manual (CCH) 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 economic equivalent of the maximum front-end sales charges permitted by (NASD rules)"). Rule 2830(d)(2) of the NASD Conduct Rules (NASD Manual (CCH) 4623) limits aggregate front-end, deferred, and asset-based sales charges to 6.25% of total new gross sales for funds that pay service fees and to 7.25% of total new gross sales for funds that do not pay service fees. Because these

proposed amendments seek to simplify the disclosure so that it may be more readily understood by investors. The Commission requests comment on the proposed disclosure and whether the disclosure should appear with the narrative explanation about rule 12b-1 fees or in connection with the fee table disclosure of these fees.²⁰¹

A fund may pay "service fees" alone or combined with fees for the sale and distribution of its shares.²⁰² If a fund pays service fees under a rule 12b-1 plan, the fund would reflect the payment of service fees in its rule 12b-1 disclosure. When service fees are paid outside of a rule 12b-1 plan, the fund would be required to disclose the amount and purpose of the fee in connection with information in the prospectus about any sales loads and rule 12b-1 fees charged by the fund.

Additional Information. Form N-1A requires a fund with a rule 12b-1 plan to describe the plan briefly and list the principal activities for which payments under the plan will be made. A fund also must disclose the relationship between amounts paid to and expenses incurred by the distributor (*i.e.*, whether the plan reimburses the distributor only for expenses incurred or compensates the distributor regardless of its expenses).²⁰³ The Form requires additional disclosure if the fund engages in joint distribution activities with another fund²⁰⁴ or if the fund's

aggregate caps apply on a fund-wide basis, over time an individual investor may pay fees exceeding the applicable cap. The NASD disclosure is intended to address this issue. See Securities Exchange Act Release No. 30897 (July 7, 1992) [57 FR 30985, 30987].

²⁰¹ If the proposed disclosure requirement is adopted, the Commission intends to discuss with the NASD its disclosure requirement so that similar disclosure is not required to be repeated in the prospectus. More generally, the Commission intends to discuss with the NASD other prospectus disclosure requirements imposed by NASD rules with the goal of incorporating these requirements, when appropriate, in applicable Commission rules or forms. In addition to streamlining disclosure requirements, this approach would give the Commission an opportunity to reassess NASD disclosure requirements in light of the Commission's broad initiatives to improve fund disclosure.

²⁰² See Rule 2830(b)(9) of the NASD Conduct Rules (NASD Manual (CCH) 4622) (defining "service fees" as payments for personal service and/or the maintenance of shareholder accounts). Rule 2830(d)(5) of the NASD Conduct Rules (NASD Manual (CCH) 4624) limits service fees to .25% of a fund's average annual net assets. See also Item 7(e) (requiring prospectus disclosure about the amount or rate of any trail fees paid out of fund assets to dealers or other persons that provide investors with advice concerning the purchase, sale, or holding of fund shares).

²⁰³ Guide 29.

²⁰⁴ A fund that engages in joint distribution activities must disclose that its rule 12b-1 fees may be used to finance another fund's distribution activities and how it allocates costs between funds.

underwriter has incurred unreimbursed expenses under the fund's 12b-1 plan.²⁰⁵

The proposed amendments would move this disclosure to the SAI. The information adds unnecessary complexity to rule 12b-1 disclosure and, as a consequence, tends to obscure the amount and purpose of rule 12b-1 fees, which does not appear to help investors evaluate and compare fund investments.²⁰⁶ Rule 12b-1 establishes requirements for a rule 12b-1 plan. In particular, a fund's board of directors must approve the rule 12b-1 plan and related fees.²⁰⁷ NASD rules provide additional protection by limiting rule 12b-1 fees (including the payment of unreimbursed expenses) to a percentage of the fund's new gross sales.²⁰⁸

c. Sales Loads

Form N-1A requires disclosure in the prospectus about the amount of any sales load charged on an investment in a fund and when a sales load may be reduced or eliminated (*e.g.*, for larger

²⁰⁵ A fund must disclose both the amount of unreimbursed expenses and the amount as a percentage of the fund's net assets, and indicate whether it is obligated to pay the expenses. In addition, under Generally Accepted Accounting Principles, the amount of any unreimbursed expenses under a rule 12b-1 plan is provided in the fund's financial statements. For a fund that has agreed to pay unreimbursed expenses if its rule 12b-1 plan is terminated, any unreimbursed expenses appear as a liability on the fund's financial statements. See Financial Accounting Standards Board, Statement of Financial Accounting Standards No. 5 — Accounting for Contingencies (Mar. 1975); American Institute of Certified Public Accountants, Statement of Position 95-3, at 5-8 (July 28, 1995).

²⁰⁶ Fund prospectuses typically include lengthy and generic descriptions of rule 12b-1 plans and related distribution activities. Prospectus disclosure, for example, consists of statements that distribution fees will be used to compensate broker-dealers and other financial intermediaries for providing distribution assistance and administrative, accounting, and other services to fund shareholders and to promote sales of fund shares through the printing and distribution of prospectuses, sales literature, and advertising materials. Some prospectuses include detailed descriptions of the requirements of rule 12b-1.

²⁰⁷ See rule 12b-1(e) (permitting a fund's directors to implement or continue a rule 12b-1 plan only if they conclude that there is a reasonable likelihood that the plan will benefit the fund and its shareholders). See also rule 12b-1(d) (requiring directors to request and evaluate information reasonably necessary to make an informed decision about whether to adopt or continue a rule 12b-1 plan); rule 12b-1(a)(3)(ii) (requiring a rule 12b-1 plan to provide that directors review, at least quarterly, the amount and purposes of expenditures under the plan).

²⁰⁸ See *supra* note 200. The Commission previously expressed concerns about the carryover of a large amount of unreimbursed expenses under a rule 12b-1 plan. Investment Company Act Release No. 16431 (June 13, 1988) (53 FR 23258, 23267) (proposing amendments to rule 12b-1). These concerns generally have been addressed by the NASD sales charge rule.

investments).²⁰⁹ The proposed amendments would continue to require most of this disclosure to appear in the prospectus.²¹⁰ The proposed amendments, however, would modify certain requirements that call for detailed and technical information about sales loads because the disclosure tends to obscure information about the amount of the sales load charged by a fund and does not appear to help investors evaluate and compare fund investments.

Dealer Reallowances. A fund is required to include a table in the prospectus showing any front-end load as a percentage of both the offering price and the net amount invested for each breakpoint, and any amounts reallocated to dealers as a percentage of the offering price. The proposed amendments would move disclosure about dealer reallowances to the SAI²¹¹ because it adds unnecessary complexity to sales load disclosure and does not appear to provide helpful information to investors. NASD rules address concerns about financial incentives brokers may have in recommending that customers buy or hold fund shares. These rules require a broker who recommends investments to a customer to have reasonable grounds for believing that the recommendation is suitable for that customer.²¹²

Waivers and Sales Load Breakpoints. Sales loads often are waived when fund directors and other affiliated persons of the fund (e.g., employees of the fund's adviser) purchase the fund's shares.²¹³

²⁰⁹ Item 7(b), (c). See section 22(d) [15 U.S.C. 80a-22(d)] (prohibiting the sale of fund shares other than at the current public offering price described in the prospectus) and rule 22d-1 (17 CFR 270.22d-1) (requiring disclosure about sales load breakpoints and waivers).

²¹⁰ The proposed amendments would clarify that a fund is required to disclose any sales loads imposed on shares purchased with reinvested dividends or other distributions. The proposed amendments also would codify the requirement in Guide 28 to explain in the prospectus that the term "offering price" includes a front-end load.

²¹¹ Proposed Item 15(f).

²¹² Rule 2310 of the NASD Conduct Rules (NASD Manual (CCH) 4261). When the Commission proposed amendments to rule 6c-10 (17 CFR 270.6c-10) in 1995, it requested comment whether reallowances to dealers in connection with deferred sales loads should be disclosed in fund prospectuses. Investment Company Act Release No. 20917 (Mar. 2, 1995) (60 FR 11890, 11894). In adopting amended rule 6c-10, the Commission deferred consideration of reallowances because the NASD is studying dealer compensation practices. Investment Company Act Release No. 22202 (Sept. 9, 1996) (61 FR 49011, 49016). Consistent with this approach, the proposed amendments would not revise the SAI disclosure of dealer reallowances to include deferred sales loads.

²¹³ For example, sales loads may be waived for investment advisory employees who are already knowledgeable about the fund, which may render marketing and other services unnecessary.

Form N-1A requires a fund to provide information about these arrangements in the prospectus. The proposed amendments would move this disclosure to the SAI because the disclosure concerns arrangements that are not available to the majority of investors and, as a consequence, adds unnecessary length to fund prospectuses.²¹⁴

The proposed amendments also would move to the SAI disclosure about sales load breakpoints and waivers in connection with a merger or other reorganization.²¹⁵ This information does not appear to be important to investors unless and until a reorganization is announced. Because fund reorganizations generally require shareholder approval, this information would be provided to investors in proxy materials at a time when it would be more meaningful to them.²¹⁶

Third-Party Fees. Form N-1A requires a fund to disclose in the prospectus any fees charged by a bank, broker-dealer or other person in connection with the purchase of the fund's shares, if the fees are charged with the fund's knowledge.²¹⁷ The proposed amendments would no longer require this disclosure, since these fees are not charged by the fund.²¹⁸ Investors are informed of (and pay) the fees as part of their relationship with, and the services provided by, the third party.²¹⁹

d. Multiple Class and Master-Feeder Funds

Form N-1A requires certain information to be included in the prospectus about the different distribution and service arrangements of

²¹⁴ Proposed Item 13(e).

²¹⁵ Proposed Item 18(b).

²¹⁶ Form N-14 under the Securities Act (17 CFR 239.23), which is used by funds to register securities issued in a merger or other reorganization and as the proxy statement for the transaction, requires disclosure about material information concerning the transaction. See Item 4(a) of Form N-14. See also Item 14(a)(3) of Schedule 14A under the Securities Exchange Act (requiring the same information in proxy statements).

²¹⁷ Item 7(b). Prospectus disclosure is not required if the fees are "adequately disclosed" in a wrapper to the prospectus.

²¹⁸ In some cases, fees charged by a third party, in effect, represent fees of the fund (e.g., when the fees are charged to all shareholders to invest in the fund) and would be required to be disclosed in the prospectus.

²¹⁹ For fee disclosure requirements applicable to banks, broker-dealers and investment advisers, 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); rule 2230 of the NASD Conduct Rules (NASD Manual (CCH) 4211); rule 204-3(a) under the Advisers Act (17 CFR 275.204-3(a)) and Item 1 of Form ADV, Part II (17 CFR 279.1).

multiple class and master-feeder funds.²²⁰ Consistent with the proposed approach for sales loads and rule 12b-1 fees, the proposed amendments would require this information to appear in one place in the prospectus. The proposed amendments also would simplify prospectus disclosure requirements for master-feeder funds by eliminating the requirement that a feeder fund discuss the possibility and consequences of no longer investing in the master fund (e.g., if the master fund changes its investment objectives to be inconsistent with those of the feeder fund). Since master-feeder arrangements typically are designed to accommodate feeder funds, the possibility of a feeder fund not investing in the master fund is likely to be remote.²²¹

Item 9.—Financial Highlights Information

Condensed Financial Information. The financial highlights information currently required at the beginning of the prospectus provides summary financial information about a fund, including the fund's total return for each of the last 10 fiscal years.²²² The proposed amendments would retain the table, but no longer require this information to appear at the front of the prospectus.²²³ Requiring detailed financial information at the beginning of a fund's prospectus may unnecessarily impede a fund's ability to present prospectus disclosure in an effective format.

Form N-1A requires a brief explanation of the nature and source of the information included in the financial highlights table as well as a statement that the auditor's report is available upon request. To meet this requirement, funds generally disclose that the table presents financial information and how shareholders can obtain the auditor's report. The proposed amendments seek to assist investors in using the financial highlights information by requiring a narrative explanation to the following effect:

²²⁰ General Instruction I; Item 6(h); Guide 34.

²²¹ Potential changes in fund operations and investments also are not unique to a feeder fund. With any fund investment, changes may occur that significantly affect the nature of the fund. The interests of all fund shareholders, including those of feeder funds, are represented by a board of directors. In addition, as with all shareholders, a feeder fund's shareholders would receive notice of and have an opportunity to vote on fundamental changes relating to the master fund's operations and investments.

²²² Item 3(a); General Instruction G to Form N-1A.

²²³ Proposed Item 9; proposed General Instruction C.2(a).

The financial highlights table is intended to help you understand the fund's financial performance for the past 10 years (or, if shorter, for 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 an investor would have earned [or lost] on an investment in the fund for the period indicated (assuming reinvestment of all dividends and distributions). This information has been audited by _____, whose report, along with the fund's financial statements, is included in (the SAI or annual report), which is available upon request.²²⁴

The financial highlights disclosure requires performance information for a partial year to be annualized. The proposed amendments would require performance information for a period of less than a year to be stated without annualization. As previously indicated, the Commission is concerned that annualization of performance information may result in a performance figure that could mislead investors.²²⁵

Apart from certain other technical and conforming changes, the proposed amendments would not revise the requirements for financial highlights disclosure. The Commission recognizes, however, that additional changes may further improve the financial highlights information, which often takes up a full page or more in the prospectus. The Commission intends to revisit this disclosure in a separate rulemaking initiative that would revise fund financial statement requirements generally and requests specific comment on simplifying and updating the financial highlights information. In particular, the Commission requests comment on reducing the number of captions to simplify the table and decreasing the period for which information is required from 10 years to 5 years. Because the proposed amendments would require a bar chart illustrating a fund's returns for a 10-year period, the Commission requests comment whether the financial highlights information should be moved to the SAI, eliminated for certain or all funds,²²⁶ or provided in other

²²⁴ Since the financial highlights information is required to be audited for the latest 5 years, the standardized narrative would continue to refer to the auditor's report and its location.

²²⁵ See, e.g., Money Market Fund Prospectus Release, *supra* note 14, at 38458.

²²⁶ In connection with the proposal to simplify money market fund prospectuses, the Commission proposed to replace the financial highlights table with a 10-year bar graph of fund returns. See Money Market Fund Prospectus Release, *supra* note 14, at 38455. The summary financial information does not appear to be useful for money market funds because these funds typically do not have changes in net assets or realized capital gains.

disclosure, such as in a fund's Form N-SAR filings.

Calculation of Performance Data. Form N-1A requires a brief explanation in the prospectus of how the fund calculates performance data if it includes performance information in advertisements permitted under rule 482 of the Securities Act.²²⁷ This disclosure was required because an advertisement under rule 482 is an omitting prospectus under section 10(b) of the Securities Act and, as an omitting prospectus, was required to contain information "the substance of which" is contained in the prospectus. The proposed amendments would eliminate this disclosure requirement. 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 included in the prospectus.²²⁸ In the near future, the Commission intends to propose to amend rule 482 to eliminate the "substance of which" requirement, which would make the disclosure of performance data unnecessary. Disclosure about how performance is calculated does not appear to assist investors in deciding whether to invest in a particular fund and would continue to be available in the SAI.²²⁹

Part B—Statement of Additional Information

The SAI provides a more detailed discussion of matters described in the prospectus as well as additional information about a fund.²³⁰ The proposed amendments would make a number of technical and conforming revisions to the SAI disclosure requirements to reflect the proposed changes in the prospectus disclosure requirements. After completion of the prospectus initiative, the Commission intends to review the SAI requirements and propose amendments to simplify and update SAI disclosure.

Part C—Other Information

Part C of Form N-1A contains information in support of a fund's registration statement that is not included in the prospectus or the

²²⁷ Item 3(c); 17 CFR 230.482(a).

²²⁸ See 1996 Securities Act *supra* note 139, at section 204.

²²⁹ Proposed Item 21. For a money market fund, SAI disclosure would include, when applicable, the calculation of the fund's 7-day tax-equivalent yield and tax-effective yield. See Money Market Prospectus Release, *supra* note 14, at 38458.

²³⁰ See proposed General Instruction C.1(b) (current General Instruction G). See also *supra* notes 39 and 47 accompanying text.

SAI.²³¹ The proposed amendments would revise Part C to eliminate unnecessary filing requirements.²³² As amended, Part C would no longer require a fund to file model retirement plans that are used to offer the fund's shares²³³ because funds routinely offer their shares in connection with retirement plans and the terms and other aspects of these plans are governed by the Employee Retirement Income Security Act of 1974 ("ERISA") and by the Internal Revenue Code.²³⁴ Amended Part C also would no longer require a fund to file a schedule showing how it calculates performance data,²³⁵ since these calculations have become routine and the Commission staff can verify a fund's performance calculations during a fund examination.²³⁶

Part C requires a newly organized fund to provide an undertaking to file a post-effective amendment to its registration statement containing updated financial statements within 4 to 6 months of the effective date of the registration statement.²³⁷ The purpose of this requirement is to assure the availability of financial information reflecting the fund's operations and investment of the fund's assets in accordance with its investment objectives and strategies. The Division has provided limited relief with respect to the timing of filing the updated financial information in two circumstances: (i) When a fund defers commencement of operations after the

²³¹ Items 24 to 32.

²³² The proposed amendments also would eliminate the "Instructions as to Summary Prospectuses" that follow Part C. To the Commission's knowledge, no fund has used a summary prospectus under these instructions and the proposed profile would give funds the flexibility, at their option, to provide a summary disclosure document to investors. See Profile Release, *supra* note 1.

²³³ Item 24(b)(14) (also requiring information about the costs and fees charged under the plans).

²³⁴ See 29 U.S.C. 1104(c); I.R.C. 401-409. The Commission adopted this requirement in 1978, when the use of funds as vehicles for retirement planning was relatively new. Integrated Registration Statement Release, *supra* note 140, at 39553, 39557.

²³⁵ Item 24(b)(16).

²³⁶ See Money Market Fund Prospectus Release, *supra* note 14, at 38458 (proposing to eliminate this requirement). The Commission required funds to file these calculations in connection with the standardization of performance information used in fund advertisements to assure that funds would follow the formula correctly. Performance Release, *supra* note 14, at 3876.

The proposed amendments also would eliminate the requirement in Item 23(b)(3) to file voting trust agreements, because funds are not permitted to use these agreements under section 20(b) (15 U.S.C. 80a-20(b)). The undertaking required by Item 32(c) relating to the delivery of a fund's annual reports would be deleted because the requirement would be incorporated in proposed Item 5.

²³⁷ Item 32(b).

effective date of its registration statement; and (ii) when the 4 to 6 month period following the effective date of the registration statement ends near the date of the financial statements to be used in the fund's next annual or semi-annual report.²³⁸ The proposed amendments would codify the requirement to file updated financial information.²³⁹ The proposed amendments would permit a fund to file a post-effective amendment within 4 to 6 months from the date the fund commences operations. The amendments also would give a fund up to 8 months to file updated financial statements that are included in the fund's semi-annual or annual report, if the post-effective amendment is filed within 30 days of the date of the latest balance sheet included in the annual or semi-annual report. The Commission requests comment whether the requirement to provide updated financial information should be retained. In particular, because the financial information may reflect a fund's operations for a very short period of time, is this information useful to investors?

D. General Instructions

1. Reorganizing and Simplifying the Instructions

The General Instructions to Form N-1A provide guidance on the use and content of the Form. The proposed amendments would update and reorganize the General Instructions to make the Instructions easier to use.²⁴⁰ The revised General Instructions would consist of: (1) Definitions; (2) Filing and Use of Form N-1A; (3) Preparation of the Registration Statement; and (4) Incorporation by Reference.

Definitions. Proposed General Instruction A would define certain terms generally used in Form N-1A. The definitions would provide greater clarity and avoid repeated references throughout the Form (for example, to the Investment Company Act). The proposed amendments would specify that all sections and rules used in Form N-1A refer to sections and rules under the Investment Company Act, unless otherwise indicated, and that all terms

defined in the Investment Company Act and related rules have the same meaning in Form N-1A, unless otherwise defined.

The proposed amendments would add several definitions to standardize certain terms, which would be capitalized throughout the Form. The term "Fund" would be defined as a registrant or a series of the registrant.²⁴¹ General Instruction A also would define "Registrant" and "Series" and these terms would be used when information is specifically required for a registrant or a series.²⁴²

Filing and Use of Form N-1A; Preparation of the Registration Statement. Proposed General Instruction B would incorporate a more user-friendly, question-and-answer format regarding the filing and use of Form N-1A and would replace current Instructions A through D and F. Proposed General Instruction C would provide streamlined requirements for preparing the registration statement and would replace Instruction G. The new Instruction would continue to emphasize the need to provide clear and concise prospectus disclosure and permit a fund to include in its prospectus or SAI additional information that is not misleading and that does not, because of its nature, quantity, or manner of presentation, obscure the information required to be included. Instructions to the Form permitting information to be added to the prospectus and SAI would be deleted, with Instruction C providing this guidance for purposes of all fund disclosure.²⁴³

Instruction C also would instruct a fund to avoid referring to the SAI or shareholder reports in the prospectus, unless specifically required by the Form.²⁴⁴ Repeated cross-references to the SAI and shareholder reports appear

to add unnecessary length and complexity to fund prospectuses and detract from the purpose of prospectus disclosure, which is to provide essential information that enables fund investors to make informed investment decisions. Instruction C would allow cross-references to be used within the prospectus when the cross-reference would assist investors in understanding the information presented and would not add complexity to prospectus disclosure. The Commission requests comment on the proposed approach to cross-references.

Instruction C would provide guidance on the use of Form N-1A by more than one fund and a multiple class fund. Fund prospectuses frequently contain information for multiple series and classes that offer investors different investment alternatives and distribution arrangements. Because this practice was not common in 1983 when Form N-1A was adopted, certain Form requirements may have the unintended effect of making prospectus disclosure for multiple funds and classes more complex than necessary.²⁴⁵ When information 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 would give funds the flexibility to organize information about multiple funds and classes in an effective manner based on their particular circumstances as long as the presentation is consistent with the goal of providing clear and concise information about a fund.²⁴⁶

Instruction C would permit a fund that is offered as an investment alternative in a participant-directed defined contribution plan qualified under the Internal Revenue Code ("plan") to modify its prospectus for use

²⁴¹ Form N-1A generally calls for disclosure about the "Registrant" (meaning the investment company registered under the Investment Company Act), although the Form sometimes refers to a series. Because the Form may be filed for one or more series of a registered investment company, the current references may cause confusion about the entity for which disclosure is required.

²⁴² General Instruction A would define a "Master-Feeder Fund" and a "Multiple Class Fund," which currently are defined in Instruction I. The proposed amendments also would define a "Money Market Fund" as a fund that holds itself out as a money market fund and meets the maturity, quality, and diversification requirements of rule 2a-7.

²⁴³ See, e.g., Item 1(b) (permitting other information to be included on the cover page of the prospectus). Similarly, specific Instructions in Part A that call for brief and concise prospectus disclosure would be deleted, since Instruction C would include this requirement for purposes of all prospectus disclosure.

²⁴⁴ See *supra* notes 39-40, 45, and 224 and accompanying text.

²⁴⁵ See John Hancock Funds, Inc. (pub. avail. June 28, 1996).

²⁴⁶ A fund, for example, may decide that using a horizontal rather than vertical presentation for the fee table would provide the most effective presentation of the required fee information. In responding to the proposed risk/return summary requirements, a fund may find that different formats 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 *id.* (using a two-page disclosure format for each of 7 funds offered in a single prospectus).

²³⁸ 1994 GCL, *supra* note 28, at V.

²³⁹ Proposed Item 22(a)(2). A conforming change would be made to rule 485(b)(1)(iv) under the Securities Act (17 CFR 230.485(b)(1)(iv)), which currently includes a reference to the undertaking required by Item 32(b) of Part C.

²⁴⁰ Certain information would be deleted as unnecessary (e.g., current Instruction H (Electronic Filers) would be deleted since this Instruction includes only a cross-reference to Item 24(b)(17), which requires a financial data schedule to accompany an electronic filing as an exhibit).

by plan participants.²⁴⁷ Certain prospectus disclosure appears to be unnecessary for plan participants because of the way plans are structured and regulated. The requirements of ERISA and the Internal Revenue Code and the terms of individual plans govern, among other things, participant investments and plan distributions (including the tax consequences of distributions).²⁴⁸ A prospectus used to offer fund shares to plan participants would be permitted to omit the information required by proposed Items 7 (shareholder information) and 8 (distribution arrangements). The Commission requests comment whether it would be appropriate to omit or modify other disclosure requirements for prospectuses provided to plan participants. The Commission also requests comment whether the flexibility to omit certain disclosure requirements should be expanded to non-qualified participant-directed defined contribution plans.²⁴⁹

Incorporation by Reference. By adopting a two-part disclosure format for Form N-1A, the Commission intended Part A of the registration statement to provide investors with a simplified prospectus that, standing alone, would meet the requirements of section 10(a) of the Securities Act.²⁵⁰ 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, but is not necessary in the public interest or for the protection of investors to be in the prospectus.²⁵¹ 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 supports the intended purpose of Form N-1A and should be retained.²⁵²

²⁴⁷ See Profile Release, *supra* note 1 (permitting a profile to be modified for use by plan participants).

²⁴⁸ See *supra* note 234.

²⁴⁹ *E.g.*, eligible plans under section 457 of the Internal Revenue Code sponsored by a state, a political subdivision of a state, or certain nongovernmental tax-exempt organizations.

²⁵⁰ Form N-1A Adopting Release, *supra* note 12, at 37930.

²⁵¹ *Id.* See *White v. Melton*, 757 F. Supp. 267 (S.D.N.Y. 1991) (citing the Form N-1A Adopting Release, *supra* note 12, as authority for the principle that certain matters are required to appear in the prospectus and others may be appropriately disclosed in the SAI, which may be incorporated by reference into the prospectus).

²⁵² See Form N-1A Proposing Release, *supra* note 13, at 818 (suggesting that prohibiting incorporation by reference of the SAI into the prospectus or,

Proposed General Instruction D would address incorporation by reference and replace current Instruction E.²⁵³ Instruction D would continue to permit, but not require, a fund to incorporate the SAI by reference into the prospectus. The revised Instruction would clarify that incorporating information by reference from the SAI is not permitted as a response to information required 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 the Commission determined not to require in the prospectus, not to permit funds to subtract required information from the prospectus and place it in the SAI. The proposed amendments to Form N-1A also seek to provide funds with clearer directions for allocating disclosure between the prospectus and the SAI.²⁵⁴

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

The Guides were prepared by the Division and published by the Commission when it adopted Form N-1A in 1983.²⁵⁵ 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 are included in the GCLs.²⁵⁶

Although certain Guides have been revised and new ones added in

alternatively, requiring delivery of the SAI with the prospectus, would "vitalize the Commission's attempt to provide shorter, simpler prospectuses").

²⁵³ The proposed amendments would make technical revisions to Instruction D to simplify its requirements. The specific instruction regarding incorporation by reference of condensed financial information from reports to shareholders in General Instruction E would be incorporated in proposed Item 9 (condensed financial information). The instruction allowing incorporation of financial information in response to Item 23 of Form N-1A from reports to shareholders would be 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 would be added to the SAI cover page requirements.

²⁵⁴ Section 19(a) of the Securities Act [15 U.S.C. 77q(a)] protects a fund from liability under the Securities Act for actions taken in good faith in conformity with Commission rules. The proposed amendments to Form N-1A are designed to provide better guidance to funds for purposes of section 19(a). See Form N-1A Adopting Release, *supra* note 12, at 37930.

²⁵⁵ 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").

²⁵⁶ See *supra* note 28.

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.²⁵⁷ 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.²⁵⁸ 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, the proposed amendments would incorporate certain disclosure requirements from the Guides and GCLs. Other disclosure requirements in the Guides and the GCLs would not be incorporated in the revised Form because, among other things, they are outdated or result in disclosure about technical, legal, and operational matters generally common to all funds. In addition, certain requirements calling for specific disclosure about individual fund investments would not be incorporated in the revised Form because they 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. The proposed amendments seek to provide investors with information about how a fund's particular portfolio will be managed and elicit disclosure tailored to a fund's particular investment objectives and strategies.²⁵⁹

Information in the Guides and GCLs about legal requirements (including information about fund organization and operations), interpretive positions, and descriptions of filing procedures would be updated and reorganized in a new Investment Company Registration

²⁵⁷ See, *e.g.*, Guide 9 (Short Sales) (for short sales, funds no longer are required to maintain amounts in segregated accounts at a level that, with the amount deposited with the broker as collateral, is at least equal to the market value of the securities at the time they are sold short, see 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); *supra* note 28, 1990 GCL at I.B (undertakings), 1991 GCL at II.A.2 (country, international, and global funds), and 1992 GCL at II.F (segregated accounts).

²⁵⁸ 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); *supra* note 28, 1994 GCL at III.C (redemption fees) and 1995 GCL at II.A (MDPF disclosure).

²⁵⁹ See *supra* section II.A.4.

Package ("Registration Package").²⁶⁰ The Registration Package would be made available to all funds and updated on a regular basis.²⁶¹

E. Technical Rule Amendments

The Commission is proposing several technical rule amendments, primarily to implement the recommendations of the Commission's Task Force on Disclosure Simplification ("Task Force") that apply to funds.²⁶² The Task Force has recommended eliminating the cross-reference sheet requirements in registration statements because similar information is available in the table of contents required in the prospectus.²⁶³ To implement this recommendation for funds, the proposed amendments would delete the cross-reference sheet requirements in rules 481, 495, and 497 under the Securities Act.²⁶⁴ The Task Force also has recommended, and the Commission has adopted, modified signature requirements to allow corporate issuers to include typed, duplicated, or faxed signatures on paper filings if a manual signature is retained by a registrant for a period of 5 years.²⁶⁵ The proposed amendments would revise signature requirements for funds

²⁶⁰ Similar guidance currently is available in the Investment Adviser Registration Package. Because the Registration Package would provide guidance on the preparation of Form N-1A, the Guides would not be republished with Form N-1A, and the GCLs no longer would apply. The Commission also is proposing to rescind the Guides Releases, *supra* note 255.

²⁶¹ The Registration Package would include requirements 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 would be considered when the Registration Package is updated, unless the nature of the information warrants immediate dissemination. The Registration Package would 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. 601 note (Supp. July 1996)).

²⁶² See *supra* note 36 (proposing to amend rule 481(b)(1) to require a simplified cover page legend that neither fund shares nor the prospectus have been approved by the Commission). Disclosure Simplification Task Force Report, *supra* note 15, at 18.

²⁶³ Disclosure Simplification Task Force Report, *supra* note 15, at 90. See, e.g., rule 481(c) (17 CFR 230.481(c)) (requiring a table of contents in fund prospectuses). The Commission has adopted amendments to Item 501(b) of Regulation S-K (17 CFR 229.501(b)) to eliminate the cross-reference sheet requirement for companies other than funds. Securities Act Release No. 7300 (June 14, 1996) (61 FR 30397, 30398) ("Release 7300").

²⁶⁴ 17 CFR 230.495.

²⁶⁵ Release 7300, *supra* note 263, at 30400. This change would make available to paper filers the additional signature options currently permitted for corporate issuers filing electronically.

in accordance with this recommendation.²⁶⁶

F. Transition Period

If the Commission adopts the proposed amendments to Form N-1A, the revised Form would replace current Form N-1A. The Commission expects to provide for a transition period after the effective date of revised Form N-1A to give funds sufficient time to prepare their registration statements under the proposed amendments. A fund filing a new registration statement would be required to comply with the proposed amendments 6 months after the effective date of the amendments. A fund with an effective registration statement would be required to comply with the amendments at the time of the next annual update of its registration statement, but no later than 16 months after the effective date of the proposed amendments. A fund also, at its option, could comply with the revised Form at any time after the effective date of the amendments. The Commission requests comment on the proposed transition period.

III. General Request for Comments

The Commission requests that any interested persons submit comments on the proposed amendments that are the subject of this release, suggest additional changes (including changes to related provisions of rules and forms that the Commission is not proposing to amend), or submit comments on other matters that might affect the proposed amendments. Commenters suggesting alternative approaches are encouraged to submit proposed rule or form text. For purposes of the Small Business Regulatory Enforcement Fairness Act of 1996 (5 U.S.C. 801 *et seq.*), the Commission also is requesting information regarding the potential impact of the proposed rule on the economy on an annual basis. Commenters should provide empirical data to support their views.

IV. Paperwork Reduction Act

The proposed Form contains "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), and the Commission has submitted the amendments to the Office of Management and Budget ("OMB") for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. The title for

²⁶⁶ Proposed revisions to rule 8b-11 (17 CFR 270.8b-11). The proposed amendments also would update a Note appearing before rule 480 (17 CFR 230.480), which explains the applicability of certain rules in Regulation C to funds.

the collection of information is "Form N-1A Under the Investment Company Act of 1940 and the Securities Act of 1933, Registration Statement of Open-End Management Investment Companies."

A registration statement on Form N-1A must contain information the Commission has determined to be necessary or appropriate in the public interest or for the protection of investors. The proposed amendments to Form N-1A seek to minimize prospectus disclosure about technical, legal, and operational matters that generally are common to all funds and to focus disclosure on essential information about a particular fund that would assist an investor in deciding whether to invest in that fund.

The proposed amendments would move certain disclosure about fund organization and legal requirements under the Investment Company Act to the SAI, simplify and clarify the instructions for completing the Form, and improve risk disclosure by requiring a discussion of the overall risks of investing in a fund, a narrative risk summary, and a graphic presentation of risk. Other technical amendments are proposed that would not impose any additional recordkeeping or reporting burden on funds.

The Commission estimates that there are approximately 2,700 registered open-end investment companies that file registration statements on Form N-1A, representing approximately 7,500 investment portfolios ("portfolios"). The Commission estimates, based on the current number of registration statements filed on Form N-1A, that approximately 4,649 registration statements, including post-effective amendments, would be filed on Form N-1A annually for a total burden of 990,000 hours. This represents a decrease of 2,205,824 hours, which is primarily to eliminate the Form N-1A burden hour estimates related to preparing financial statements because that burden is reflected in the burden hours attributable to annual and semi-annual reports required under rule 30d-1. The information collection requirements imposed by Form N-1A are mandatory. Responses to the collection of information will not be kept confidential. An agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a currently valid control number.

Under 44 U.S.C. 3506(c)(2)(B), the Commission solicits comment to: (i) Evaluate whether the proposed collection of information is necessary

for the proper performance of the functions of the Commission, including whether the information shall have practical utility; (ii) evaluate the accuracy of the Commission's estimate of the burden of the proposed collection of information; (iii) enhance the quality, utility, and clarity of the information to be collected; and (iv) minimize the burden of collection of information on those who are to respond, including through the use of automated collection techniques or other forms of information technology.

Those who want to submit comments on the collection of information requirements should direct their comments to the OMB, Attention: Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Washington, DC 20503, and also should send a copy of their comments to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 5th Street, NW., Washington, DC 20549-6009 with reference to File No. S7-10-97. The OMB is required to make a decision concerning the collections of information between 30 and 60 days after publication, so a comment to OMB is best assured of having its full effect if the OMB receives it within 30 days of publication.

V. Summary of Initial Regulatory Flexibility Analysis

The Commission has prepared an Initial Regulatory Flexibility Analysis ("Analysis") in accordance with 5 U.S.C. 603 regarding the proposed amendments to Form N-1A. The Analysis explains that the proposed amendments would revise disclosure requirements for fund prospectuses 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 deciding whether to invest in that fund. The Analysis also explains that the proposed amendments are intended to improve fund prospectuses and to promote more effective communication of information about funds.

The Analysis discusses the impact of the proposed rule on small entities, which are defined, for the purposes of the Securities Act and the Investment Company Act, as investment companies with net assets of \$50 million or less as of the end of the most recent fiscal year (17 CFR 230.157(b) and 270.0-10). The Commission estimates that approximately 2,700 registered open-end management investment companies are subject to the requirements of Form

N-1A and of these, approximately 620 (23%) are investment companies that would be small entities.

The Analysis explains that the proposed amendments would not impose any substantial additional compliance burdens for small entities because most of the changes do not require new information, although, initially, the changes would require small entities to revise their prospectuses to present the information in the amended format. The proposed amendments primarily would 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. On balance, 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 Analysis, the Commission considered several alternatives to the amendments proposed for Form N-1A, including, among others, establishing different compliance or reporting requirements for small entities or exempting them from all or part of the proposed 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.

The Commission encourages the submission of comments on the Analysis, including specific comment on (i) the number of small entities that would be affected by the proposed amendments and (ii) the discussion of the impact of the proposed amendments on small entities. Comments will be considered in the preparation of the Final Regulatory Flexibility Analysis if the proposed amendments are adopted. You may obtain a copy of the Analysis from John M. Ganley, Senior Counsel, Securities and Exchange Commission, 450 5th Street, NW., Mail Stop 10-2, Washington, DC 20549-6009.

VI. Statutory Authority

The amendments to the Commission's rules and forms are being proposed 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 precede the text of the amendments.

VII. Text of Proposed Amendments

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

Advertising, Investment companies, Reporting and recordkeeping requirements, Securities.

For the reasons set out in the preamble, the Commission proposes to amend Chapter II, Title 17 of the Code of Federal Regulations as follows:

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

The authority citation for Part 230 is revised to read in part as follows:

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

* * * * *

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.

Amend § 230.481 to revise the section heading and paragraphs (a) and (b)(1) to read as follows:

§ 230.481 Information required in prospectuses.

* * * * *

(a) The facing page of every registration statement must indicate the approximate date of proposed sale to the public.

(b) * * *

(1) Disclosure in a legend that indicates that the Commission has not approved the securities or passed upon the adequacy of disclosure in the prospectus and that any representation to the contrary is a criminal offense. The legend may be in one of the following formats or other clear and concise language:

The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.; or

The Securities and Exchange Commission has not approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.; and

* * * * *

Amend § 230.485 to revise paragraph (b)(1)(iv) to read as follows:

§ 230.485 Effective date of post-effective amendments filed by certain registered investment companies.

* * * * *

(b) * * *

(1) * * *

(iv) Filing financial statements after the effective date of the registration statement under Item 22(a)(2) of Form N-1A (17 CFR 239.15A or 274.11A);

* * * * *

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

The authority citation for part 270 continues to read, in part, as follows:

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

* * * * *

8. 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 239—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

9. The authority citation for part 239 is revised to read, in part, as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77sss, 78c, 78l, 78m, 78n, 78o(d), 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.

* * * * *

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

10. 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.

11. 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.

Calculation of Registration Fee Under the Securities Act of 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee

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" and the table showing the calculation of the registration fee only where shares are being registered under the Securities Act of 1933. Registrants that are registering an indefinite number of shares under the Securities Act of

1933 in accordance with the provisions of rule 24f-2 under the Investment Company Act of 1940 (17 CFR 270.24f-2) should include the declaration required by rule 24f-2(a)(1) on the facing sheet, in lieu of the table showing the calculation of the registration fee under the Securities Act of 1933 or in combination with the calculation as appropriate.

No response to the collection of information contained in this form is required unless the form displays a currently valid OMB control number.

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- Signatures

General Instructions

A. Definitions

References to sections and rules in this Form N-1A are under 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 forth below have the following meanings:

"Fund" means the Registrant, or if the Registrant offers more than one Series, a separate Series of the Registrant. When a form item 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") as its only securities 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 issues more than one class of shares, each of which represents interests in the same portfolio of securities under rule 18f-3 (17 CFR 270.18f-3) or an order exempting the Fund from sections 18(f), 18(g), and 18(i) (15 U.S.C. 80a-18(f), 18(g), and 18(i)).

"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 a series of shares offered by a Registrant that represents undivided interests in a portfolio of investments and that is preferred over all other series of shares in respect of 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 under the Investment Company Act (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 does the registration statement consist of?

(a) For registration statements or amendments filed under both the Investment Company Act and the Securities Act or only under the Securities Act (except as set forth in (c) below), the registration statement consists of 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, the registration statement consists of 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.

(c) For amendments to registration statements filed under the Securities Act solely for the purpose of registering additional securities, the registration statement consists of the facing sheet of the Form, the required signatures, and if the amendment is filed pursuant to section 24(e) (15 U.S.C. 80a-24(e)) of the Investment Company Act, a response to Item 23(i).

3. What are the filing fees for Form N-1A?

(a) A Fund must pay a registration fee, calculated in accordance with section 6(b) of the Securities Act (15 U.S.C. 77f(b)) and rule 24f-2 under the Investment Company Act, to register securities under that Act.

(b) No filing fees are required to register under the Investment Company Act.

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 are set forth 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 rules in rules 8b-1-8b-32 (17 CFR 270.8b-1-270.8b-32) apply to the filing of Form N-1A.

(c) 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. Form N-1A is divided into three parts:

(a) *Part A.* Part A sets forth the information that must be included 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 assist investors in making informed decisions about whether to purchase the securities being offered. Because investors who rely on the prospectus may not be sophisticated in legal or financial matters, provide the information in the prospectus in a clear, concise, and understandable manner. For example, using excessive detail, technical or legal terminology, complex language, and lengthy sentences and paragraphs may make the prospectus difficult for many investors to understand and detract from its usefulness. In responding to the Items in Part A:

(i) Respond as simply and directly as reasonably possible and include only as much information as is necessary to an understanding of the fundamental and particular characteristics of the Fund. Brevity is especially important in describing practices or aspects of the Fund's operations that do not differ materially from those of other investment companies.

(ii) Avoid detailed descriptions of practices that are required or otherwise affected by legal requirements.

(iii) Avoid, except when specifically required, cross-references to the SAI or shareholder reports in connection with disclosure provided in the prospectus. The Fund may provide cross-references within the prospectus when the use of cross-references assists investors in understanding the information presented and does not add complexity to the prospectus.

(b) *Part B.* Part B sets forth the information that must be included 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 sets forth other information that must be included in a Fund's registration statement.

2. Additional Matters:

(a) *Organization of Information.* A Fund should 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 by any other Item except the Cover Page (Item 1) and the table of contents required by rule 481(c) under the Securities Act (17 CFR 230.481(c)). Disclose the information required by Item 8 (Distribution Arrangements) in one place in the prospectus.

(b) *Other Information.* Except for the Risk/Return Summary, a Fund may include other information in the prospectus or the SAI, including, for example, 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 or Series or by a Multiple Class Fund.* Form N-1A may be used by one or more Registrants, Series, or classes of a Multiple Class Fund.

(i) When disclosure is provided for more than one Fund or class of shares, disclosure should be presented in a format designed to communicate the information effectively. To meet this requirement, 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 in 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 by other information. As a general matter, multiple Funds or Multiple Class Funds may depart from that requirement if 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 the Item 2 information for several Funds followed by all 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) *Defined Contribution Plans.* Form N-1A may be used by a Fund that is offered as an investment alternative in a participant-directed defined contribution plan that meets the requirements for qualification under the Internal Revenue Code. A Fund may omit the information required by Items 7 and 8 of this Form from a Fund's prospectus that is used to offer Fund shares to plan participants.

(e) *Dates.* The requirements for dating the prospectus under rule 423 under the Securities Act (17 CFR 230.423) apply equally to dating the SAI. The SAI should be made available at the same time 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.* Sales literature may be included in the prospectus so long as the amount of this information does not add substantial length to the prospectus or 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 in the prospectus) without delivering the SAI with the prospectus.

(c) A Fund may incorporate by reference into the SAI or Other Information sections information that Parts B and C of this Form require to be included in the SAI or Other Information sections of a Fund's registration statement.

2. General Requirements:

All incorporation by reference must comply with the requirements of this Form and the Commission's rules on

incorporation by reference including: 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 under the Investment Company Act (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 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.

(b) *Back Cover Page.* Include the following information on the outside back cover page of the prospectus:

(1) The Fund's name, the Registrant's Investment Company Act file number, and if the Fund is a Series, also provide the Registrant's name.

(2) The date of the SAI and a statement that the SAI includes additional information about the Fund that is available, without charge, upon request. Also explain how shareholder inquiries can be made. Provide a toll-free (or collect) telephone number to call to request the SAI, the Fund's annual report if required by Item 5, or other information required to be provided to investors, and to make shareholder inquiries.

Instructions.

1. If applicable, a Fund may indicate that this information is available on its Internet site and by E-mail request.

2. When a request for the SAI is received, the Fund should send the SAI, by first-class mail or other means designed to ensure equally prompt delivery, within 3 business days of receipt of the request.

(3) A statement whether and from where information is incorporated by reference into the prospectus as permitted by General Instruction D and, unless delivered with the prospectus,

explain that the Fund will provide information incorporated by reference without charge, upon request (referencing the telephone number provided in response to paragraph (b)(2)).

Instruction. The information about incorporation by reference can be combined with the statement required under paragraph (b)(2).

(4) 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.

Item 2. Risk/Return Summary: Investments, Risks, and Performance Include the following information in the same order and in the same or substantially similar question-and-answer format:

(a) What are the Fund's goals?

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

(b) What are the Fund's main investment strategies?

(1) Based on the information given in response to Item 4(a), 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.

(2) 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 (_____).

Instructions

1. Provide a toll-free (or collect) telephone number for investors to

request the annual or semi-annual reports. If applicable, a Fund may indicate that its annual or semi-annual reports are available on its Internet site and by E-mail request.

2. For a Fund that provides the information required by Item 5 (Management's Discussion of Fund Performance) in its prospectus (and not the annual report) or for a Money Market Fund, do not provide the disclosure required by the second sentence of paragraph (b)(2).

3. When a request for an annual or semi-annual report is received, the Fund should send the applicable report, by first-class mail or other means designed to ensure equally prompt delivery, within 3 business days of the request.

(c) What are the main 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. If the Fund is a Money Market Fund, see paragraph (c)(1)(iii) below.

Instruction. A Fund also may discuss the potential rewards of investing in the Fund so long as the discussion provides a balanced presentation of the Fund's risks and rewards.

(ii) Describe the characteristics of an investor for whom the Fund may be an appropriate or inappropriate investment (e.g., based on the investor's time horizon, willingness to tolerate fluctuations in principal, or on the tax consequences of investing in the Fund).

(iii) 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." If a Money Market Fund is a single state fund under rule 2a-7, disclose that investing in the Fund is riskier than investing in other types of Money Market Funds, because the Fund may invest a significant portion of its assets in a single issuer.

Instruction. A Fund may omit the disclosure required by the last sentence of paragraph (c)(1)(iii) if the Fund limits its investments in a single issuer to no more than 5% of the Fund's assets in a single issuer.

(iv) If the Fund is not a Money Market Fund but is advised by or sold through a bank, state that: "An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency."

(v) If applicable, state that the Fund is non-diversified, describe the effect of non-diversification (e.g., disclose that, compared to 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 under a subheading that refers to both risk and performance. Explain how the information illustrates the Fund's risks and performance (e.g., by stating that the information illustrates the Fund's risks and performance 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 to 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 total 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 each return in numerical form next to each bar.

(iii) Accompany the bar chart with a table showing the Fund's average annual total returns for 1, 5, and 10 year periods ending on the date of the most recently completed fiscal year (or for the life of the Fund, if shorter) and the returns of an appropriate broad-based securities market index as defined in Instruction 5 to Item 5(b) for the same periods. For a Money Market Fund, provide the Fund's 7-day yield ending on the date of the most recently completed fiscal year and 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 returns beginning with the latest calendar year, but only for periods subsequent to the effective date of the Fund's registration statement. Calculate annual returns using the Instructions to Item 9(a),

except base the calculations on calendar years. If the Fund charges sales loads or account fees, state that sales fees (loads) or account fees are not reflected in the bar chart and that, if these fees were included, 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 total 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 shows the Fund's risks and performance by comparing the Fund's performance to 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) In addition to the required broad-based securities market index, a Fund may include information for one or more additional 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 to the returns of an index of funds with similar investment objectives).

(c) If the Fund selects a different index from an index used in a table for the immediately preceding period, explain the reason(s) for the change 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 of shares in the prospectus, provide annual total returns in the bar chart for the class that has annual total return information for the longest period of time over the last 10 years. When the prospectus offers two or more classes that have annual total returns for at least 10 years or annual total returns for the same time period but less than 10 years, provide returns for the class with the greatest net assets as of the end of the Fund's most recent

calendar year. Identify the class of shares for which returns are shown.

(b) Provide average annual total returns in the table for each class offered in the prospectus.

4. *Change in Investment Adviser.* If the Fund has not had the same 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 the same question-and-answer format required by Item 2 (unless the Fund offers its shares exclusively to one or more separate accounts):

What are the Fund's fees and expenses?

This table describes the fees and expenses you may pay in connection with an investment in the Fund.

Shareholder Fees (fees paid directly from your account)

Maximum Sales Fee (Load) Imposed on Purchases (as a percentage of offering price)	_____ %
Maximum Deferred Sales Fee (Load) (as a percentage of _____)	_____ %
Maximum Sales Fee (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	_____ %
Marketing (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 to 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 your shares at the end of those periods. The Example also assumes a 5% return on your investment 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 \$ _____
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You would pay the following expenses if you did not redeem your shares:

1 year \$ _____	3 years \$ _____	5 years \$ _____	10 years \$ _____
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The Example does not reflect sales fees (loads) on reinvested dividends [and other distributions]. If these fees 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 (Loads).

(a)(i) "Maximum Deferred Sales Fee (Load)" includes the maximum total deferred sales 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 load based on net asset value at the time of purchase, show the sales load as a percentage of the *offering price* at the time of purchase. If applicable, a Fund may include in a footnote to the table a tabular presentation showing the amount of deferred sales loads over time or a narrative explanation of the 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 load is charged (e.g., a deferred sales load and a front-end sales load), the first caption in the table should read "Maximum Sales Fee (Load)" and show the maximum cumulative percentage. Show the percentage amounts and the terms of each sales charge comprising that figure on separate lines below.

(iii) If a sales 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 load charged upon redemption.

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

(d) "Maximum Account Fees." If all shareholders are charged an account fee, 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 and 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 \$2,500), 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. For purposes of this Instruction, all shareholders are deemed to pay an account fee:

(i) Despite waiver of the fee for certain shareholders, such as employees of the Fund's investment adviser and investors with large account balances; and

(ii) Unless any shareholder not wishing to use the services covered by the fee may avoid the fee and a significant number of shareholders do, in fact, avoid the fee.

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 not included as "Other Expenses."

(b) "Marketing (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). Disclose the amount of any distribution or similar expenses deducted from the Fund's assets other than pursuant to a rule 12b-1 plan under an appropriate caption or a subcaption of "Other Expenses."

(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 by using 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 most recent fiscal year. 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. It includes the elimination of any expense reimbursement or fee waiver arrangement, in which case include in the table the expenses that would have been incurred had there been no reimbursement or waiver. A change in "Annual Fund Operating Expenses" does not include:

(A) Circumstances when expenses decrease in relation to the Fund's size so as to make any reimbursement or waiver arrangement inoperative; or

(B) 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) If there were expense reimbursement or fee waiver arrangements that reduced any Fund operating expenses and will continue to reduce them in the current fiscal year (regardless of whether the arrangement has been guaranteed):

(i) Revise the appropriate caption by adding "After Expense Reimbursements" or a similar phrase;

(ii) State the amount of actual expenses incurred (*i.e.*, net of the amount reimbursed or waived); and

(iii) Disclose in a footnote to the table the amount the expenses or fees would have been absent the reimbursement or waiver.

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 loads on shares purchased with reinvested dividends or other distributions. If the Fund charges sales loads on reinvested dividends or other distributions, include the narrative explanation following the Example and include the bracketed words when sales loads are charged on reinvested capital gains distributions or returns of capital. Reflect any shareholder account fees collected by dividing the total amount of the fees collected during the most recent fiscal year by 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 load by assuming redemption of the entire account at the end of the year in which the load is due. In the case of a deferred sales 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 load or other fee is charged upon redemption.

5. *New Funds.* 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 less than 10 months. The following Instructions apply to new Funds.

(a) Base the percentages expressed in "Annual Fund Operating Expenses" on payments that will be made, estimating amounts of "Other Expenses" (after any expense reimbursement or waiver). Disclose in a footnote to the table that

"Other Expenses" are based on estimated amounts for the current fiscal year.

(b) If expense reimbursement or waiver arrangements are expected to reduce any Fund operating expense or the estimate of "Other Expenses" (regardless of whether the arrangement has been guaranteed):

(i) Revise the appropriate caption by adding "After Expense Reimbursements" or a similar phrase;

(ii) State the amount of actual expenses expected to be incurred or the actual estimate (*i.e.*, net of the amount expected to be reimbursed or waived); and

(iii) Disclose in a footnote to the table what the expenses (or estimates) would have been absent the reimbursement or waiver.

(c) Complete only the one and three year period portions of the Example and estimate any shareholder account fees collected.

Item 4. Investment Objectives, Principal 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. As part of the discussion:

(1) Describe the Fund's principal 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 the Fund's investment objectives.

2. Whether a particular strategy, including a strategy to invest in a particular type of security, is a principal 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 strategy, consider, among other things, the amount of the Fund's assets expected to be committed to the practice, the amount of the Fund's assets expected to be placed at risk by the practice, and the likelihood of losing some or all of those assets.

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 strategy.

4. Disclose any policy specified in Item 12(c)(1) that is a principal strategy. A Fund, at its option, may disclose that

the policy may not be changed without shareholder approval.

(2) Explain in general terms how the Fund's adviser decides what securities to buy and sell (*e.g.*, for an equity fund, discuss the factors that the adviser considers in deciding to buy the stock of one company rather than another, and how the adviser decides when to sell that stock).

(3) Disclose any policy to concentrate (*i.e.*, invest 25% or more of the Fund's total assets) in securities of issuers in a particular industry or group of industries. For a Money Market Fund that is a single state fund as defined in rule 2a-7, discuss the Fund's concentration in securities issued by a particular state (or particular subdivision of the state) or by issuers located within the state (or subdivision).

(4) For a Fund (other than a Money Market Fund) that expects its portfolio turnover rate to equal or exceed 100% in the coming year:

(i) Disclose the anticipated rate of the Fund's portfolio turnover for the coming year and explain what that rate means (*e.g.*, that a 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).

(ii) Explain the tax consequences to shareholders of the Fund's portfolio turnover, and how trading costs associated with the Fund's portfolio turnover may affect the Fund's performance.

(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.

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

(e) *Temporary Defensive Positions.* Disclose, if applicable, that the Fund, to avoid losses in response to adverse market, economic, political, or other conditions, may take temporary defensive positions that depart from the Fund's principal strategies. Indicate the percentage of the Fund's assets that may be committed to temporary defensive positions, the risks, if any, associated with these positions and the likely effect of these positions on the Fund's performance.

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 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 that charges a contingent deferred sales load, assume the deduction of the

maximum deferred sales load (or other charges) that would be applicable 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 the deduction in the amount(s) and at the time(s) the load actually would have been deducted.

3. Dividends and Distributions.

Assume all of the Fund's dividends and distributions are reinvested on the reinvestment dates during the period, and reflect any sales load charged 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. In addition to the required broad-based index comparison, a Fund is encouraged to compare its performance 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 a different index 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 Fund 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 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.

(c) 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 and 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. Describe the investment adviser's experience as an investment adviser and the advisory services it provides to the Fund.

(ii) Describe each investment adviser's compensation as follows:

(A) If the Fund has operated for a full fiscal year, state the 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 will be 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.

(2) *Portfolio Manager.* State the name, title, and length of service of the person or persons employed by or associated with the Fund's investment adviser (or the Fund) who are primarily responsible for the day-to-day management of the Fund's portfolio and 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. Information is required only about the person(s) who serves as the Fund's portfolio manager even though the manager may be subject to the oversight, approval, or ratification of a committee.

3. Indicate that a committee makes investment decisions for the Fund if the organizational arrangements of the adviser (or the Fund, if internally managed) require all investment decisions to be made by a committee and no person(s) is primarily responsible for making recommendations to that committee.

(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 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) *Fund Organization.* If the Fund is organized outside the United States, disclose the country where the Fund is organized.

(c) *Capital Stock.* Disclose any:

(1) Restrictions on the right freely to retain or dispose of the Fund's shares; and

(2) Material obligations or potential liabilities associated with owning the Fund's shares (not including investment risks).

Item 7. Shareholder Information

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

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

(2) 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 will be closed.

Instruction. If the Fund has portfolio securities 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.

(3) Any minimum initial or subsequent investment.

(b) *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) An explanation if the Fund, under normal circumstances, intends to redeem in kind.

Instruction. If applicable, a Fund may describe redemption procedures under rule 18f-1.

(4) Any procedure that a shareholder can use to sell 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 for such service need not be disclosed.

(5) The circumstances, if any, under which the Fund may redeem shares involuntarily 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.

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

(c) *Dividends and Distributions.* Describe the Fund's policy with respect

to dividends and distributions, including any options shareholders may have as to the receipt of dividends and distributions.

(d) *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. If the Fund, as a result of its investment objectives or strategies, expects its distributions to consist primarily of ordinary income (or short-term gains that are taxed as ordinary income) or capital gains, provide disclosure to that effect.

(ii) The Fund will provide each shareholder by [specify a date] with specific information about the amount of ordinary income and capital gains distributed to the shareholder during the prior calendar year.

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

(iv) 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 (d)(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;

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

(D) A portion of the tax-exempt income received from the Fund may be treated as a tax preference item for purposes of determining whether a shareholder is subject to the federal alternative minimum tax.

(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 of not qualifying. 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 consequences of paying the excise tax.

Item 8. Distribution Arrangements

(a) *Sales Loads.*

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

Instructions.

1. In providing the information required by this paragraph, refer to sales loads as "sales fees (loads)."

2. If the Fund charges a front-end load, explain that the term "offering price" includes the front-end load.

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

4. Discuss, if applicable, how deferred sales loads are charged and calculated, including:

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

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

(c) A description of how the load is calculated (e.g., in the case of a partial redemption, whether or not the load is calculated as if shares or amounts representing shares not subject to a 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 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) or in the SAI, 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 and Service Fees.*

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

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

(ii) 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 loads.

Instructions.

1. 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 marketing 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).

2. In providing the information required by this paragraph, refer to rule 12b-1 fees as "marketing fees."

(2) If the Fund pays service fees other than pursuant to a plan under rule 12b-1, disclose the amount of the fee and indicate that the fees are used to provide services to shareholders.

(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 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 Multiple Class Fund publicly offers any other classes of its shares in another prospectus, or if any publicly offered feeder fund that invests in the same Master Fund as the Fund is offered in another prospectus, include the following disclosure:

(i) That the Fund has other classes or that other funds invest in the same Master Fund (using the same names for classes and feeder funds as elsewhere in the prospectus);

(ii) That those classes or feeder funds may have different sales fees (loads) and other expenses, which may affect performance;

(iii) A telephone number investors may call to obtain more information concerning the other classes or feeder funds available to them through their sales representative; and

(iv) That investors may obtain information concerning those classes or feeder funds from (as applicable) their sales representative or any other person,

such as the principal underwriter, a broker-dealer or bank, which is offering or making available to them the shares offered in the prospectus.

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 10 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 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

Average Commission Rate Paid

Instructions.

1. General.

(a) Present the information in comparative columnar form for each of the last 10 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 the period for which the Fund provides financial highlights is less than a full fiscal year, the ratios in the table may be annualized. If applicable, 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 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 the Fund charges sales load or account fees, note that they are not reflected in total return.

(c) Reflect any sales load charged 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.

5. Average Commission Rate Paid.

(a) A Fund that invests not more than 10% of the value of its average net assets in equity securities on which commissions are charged on trades may omit Average Commission Rate Paid. Calculate average net assets by totaling the amounts invested at the beginning and end of the first quarter of the fiscal year and at the end of each succeeding quarter and dividing the sum by 5.

(b) Calculate the average commission rate paid by dividing the total dollar amount of commissions paid during the fiscal year by the total number of shares purchased and sold during the fiscal year for which commissions were charged. Carry the amount of the average commission rate paid to no fewer than four decimal places. Convert commissions paid in foreign currency into U.S. dollars using consistently either the prevailing exchange rate on the date of the transaction or average exchange rate over the period the transactions took place. Do not include markups, mark-downs, or spreads paid on shares traded on a principal basis unless they are disclosed on confirmations prepared in accordance with rule 10b-10 under the Securities Exchange Act (17 CFR 240.10b-10).

(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)(3).

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) That the SAI should be read in conjunction with the prospectus;
 - (iii) How the prospectus may be obtained; and
 - (iv) 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 where 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 strategies, including a strategy to invest in a particular type of security, used by the Fund's investment adviser 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 objective.

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 a Fund may make while assuming a temporary defensive position.

(e) Portfolio Turnover.

(1) If a Fund expects its portfolio turnover rate to be less than 100% for the coming year, disclose the anticipated rate of portfolio turnover for the coming year.

(2) Explain any significant variation in the Fund's portfolio turnover rates over the most recent two 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 where 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 Occupation(s) During Past 5 Years
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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 Benefits Accrued As Part of Fund Expenses	(4) Estimated Annual Benefits Upon Retirement	(5) Total Compensation From Fund and Fund Complex Paid to Directors
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Instructions.

1. For column (1), indicate, as necessary, the capacity in which the remuneration is received. For Compensated Persons that 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 the 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 acknowledgement 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 of record or 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 the Fund paid to 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, set forth the standard along with a fee schedule in tabular form. The Fund may include examples showing the fees 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 Series or 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 the 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 the investment adviser.

(2) Describe all fees, expenses, and costs of the Fund that are to be paid by persons other than the 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 securities, 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, its investment adviser or its 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 reallowed 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 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 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 and markups on principal transactions and the aggregate amount of any brokerage commissions paid by the Fund during the 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 the 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 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 whom 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) Dividend rights;
 - (ii) Voting rights (including whether the rights of shareholders can be modified by other than a majority vote);
 - (iii) Liquidation rights;
 - (iv) Preemptive rights;
 - (v) Conversion rights;
 - (vi) Redemption provisions;
 - (vii) Sinking fund provisions; and
 - (viii) 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.

(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 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 unless the information has been disclosed in the prospectus.

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.

(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 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
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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 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 payments under Item 8(b). 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, 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:

$$\text{EFFECTIVE YIELD} = \left[\frac{\text{BASE PERIOD RETURN} + 1}{7} \right]^{365} - 1.$$

(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 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.

2. Exclude realized gains and losses from the sale of securities and unrealized appreciation and depreciation from the calculation of yield and effective yield.

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 charged 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 charged 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 a Fund imposes, in connection with sales of its shares, a deferred sales load payable in installments, 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.*

(1) 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.

(2) File a post-effective amendment containing financial statements, which do not have to be audited, within 4 to 6 months of the effective date of the Fund's registration statement or the date the Fund commences operations (*i.e.*, begins selling shares to the public or investing assets in accordance with its investment objectives).

Instruction. A Fund may file the post-effective amendment within 8 months of the effective date of the Fund's registration statement if the post-effective amendment is filed within 30 days of the date of the latest balance sheet included in the Fund's annual or semi-annual report to shareholders.

(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), for the 5 most recent fiscal years, 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 H 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, any amendment to the plan or an agreement, and the relevant minutes from a meeting of the Fund's directors describing any action taken to revoke the plan.

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. Number of Holders of Securities

State in a tabular form similar to the one below, as of a specified date within 90 days prior to filing, the number of record holders of each class of the Fund's securities.

(1) Title of class	(2) Number of record holders
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Item 26. 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 27. 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 28. 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
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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 29. 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 thereunder.

Item 30. 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 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 totalling less than \$5,000 during each of the last three fiscal years.

Item 31. 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 indicated.

(Signature)

(Title)

(Date)
By the Commission
Dated: February 27, 1997.

Margaret H. McFarland,
Deputy Secretary.
[FR Doc. 97-5368 Filed 3-7-97; 8:45 am]