

105TH CONGRESS
2D SESSION

H. R. 4822

To require the Securities and Exchange Commission to require the improved disclosure of tax effects of portfolio transactions on mutual fund performance, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 13, 1998

Mr. GILLMOR (for himself, Mr. OXLEY, Mr. MANTON, Mr. DEAL of Georgia, Mr. BURR of North Carolina, Mr. HALL of Texas, Mr. WHITFIELD, Mr. LARGENT, Mr. TOWNS, Mr. WAXMAN, Mr. TAUZIN, and Mr. SHIMKUS) introduced the following bill; which was referred to the Committee on Commerce

A BILL

To require the Securities and Exchange Commission to require the improved disclosure of tax effects of portfolio transactions on mutual fund performance, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Mutual Fund Tax
5 Awareness Act of 1998”.

6 **SEC. 2. FINDINGS.**

7 The Congress finds the following:

1 (1) Performance figures that investment compa-
2 nies generally disclose to their shareholders are net
3 of fees and expenses, but not taxes, and thereby fail
4 to take into consideration the impact taxes have on
5 an investor's return.

6 (2) The incompleteness of this disclosure with
7 respect to taxes, because it treats investment compa-
8 nies with similar pre-tax, but with dissimilar after-
9 tax, returns, presents investors with a false or mis-
10 leading picture of fund performance.

11 (3) Improved disclosure of tax-efficiency would
12 allow shareholders to compare after-tax returns to
13 raw performance, and would permit the investors to
14 determine whether the fund manager tries to mini-
15 mize tax consequences for shareholders.

16 (4) If a fund's performance is based mostly on
17 short-term gains, investors can lose up to one-half of
18 the return to taxes.

19 (5) The average portfolio turnover rate for an
20 actively managed (non-index) fund has increased
21 from 30 percent 20 years ago to almost 90 percent
22 today, and average capital gains distributions of
23 growth funds, per share, have more than doubled in
24 the last 10 years.

1 (6) While the investment company prospectus
2 details the average annual portfolio turnover rate,
3 the prospectus does not adequately inform share-
4 holders about the impact the portfolio turnover rate
5 has on total returns.

6 **SEC. 3. IMPROVEMENTS IN DISCLOSURE REQUIREMENTS.**

7 Within 1 year after the date of enactment of this Act,
8 the Securities and Exchange Commission shall revise reg-
9 ulations under the Investment Company Act of 1940 to
10 require, consistent with the protection of investors and the
11 public interest, improved methods of disclosing in invest-
12 ment company prospectuses and annual reports the after-
13 tax effects of portfolio turnover on investment company
14 returns to investors.

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