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## SEC Proposes Overhaul of Fund Disclosure

On Aug. 5, 2020, the Securities and Exchange Commission (SEC) proposed rule and form amendments designed to modernize fund disclosure for mutual funds and exchange-traded funds (ETFs) registered on Form N-1A (open-end investment management companies) and amend the advertising rules for open-end funds, closed-end funds and business development companies (Proposal).<sup>1</sup> The proposed disclosure framework would result in significant changes to the current disclosure regime for mutual funds and ETFs. The Proposal is designed to incorporate the information received by the SEC in its June 2018 request for comment on retail investors' experience with fund disclosure and ways to enhance such disclosure (Fund Investor Experience RFC), which articulated fund shareholders' preference for concise, layered disclosure that highlights key information and uses design features to make disclosure easier to understand. The revised framework would feature concise, visually engaging shareholder reports highlighting information the SEC believes is most pertinent to fund shareholders. The Proposing Release also includes changes to fund prospectus delivery requirements and prospectus disclosure items.

This Alert includes a summary of the Proposal, followed by a detailed discussion and list of issues for funds and advisers to consider. A one-page overview of the Proposal can be found [here](#).

### SUMMARY

The key features of the Proposal include the following:

- Shareholder reports would serve as the primary fund disclosure document for shareholders and would include condensed and more visually appealing content to highlight information the Staff believes is particularly important to retail investors, including:
  - fund expenses;
  - performance;
  - illustrations of holdings; and
  - material fund changes.
- The Proposal encourages funds to use graphic or text features, such as tables, bullet lists, and Q&A formats in their shareholder reports. The SEC's press release related to the Proposal includes a [hypothetical streamlined shareholder report](#) that is illustrative of the Staff's vision and may serve as a useful tool for fund groups:
- Shareholder reports would be streamlined by moving financial highlights, financial statements, including the schedule of investments, and other information out of the shareholder report and into new sections of Form N-CSR, which would be filed semi-annually, available online, and delivered upon request;
- New Rule 498B would permit funds to forego providing annual update prospectuses to

existing shareholders and instead provide timely notification of material changes to certain Form N-1A items specified in the Rule which, together with the new summary of material changes required in annual reports, would keep shareholders informed;

- Rule 30e-3, which allows registered funds to satisfy the shareholder report transmission requirement by providing notice of their availability online, would be modified to exclude mutual funds and ETFs. Rule 30e-3 becomes effective Jan. 1, 2021, and, if the Proposal is adopted, funds will need to determine whether to rely on Rule 30e-3 for what could be an abbreviated period between Jan. 1, 2021, and the effective date of the proposed rule change;
- The Proposal makes significant changes to prospectus disclosure requirements, including:
  - replacing the existing fee table in the summary section of the statutory prospectus with a simplified fee summary;
  - moving the existing fee table to the statutory prospectus;
  - replacing certain terms in the current fee table (e.g., “purchase fee” instead of “maximum sales charge”); and
  - allowing funds with investments in other funds below a specified threshold to disclose “acquired fund fees and

expenses” in a fee table footnote rather than in the fee table itself.

- The Proposal would also codify prior Staff guidance and comments regarding prospectus disclosure of principal risks, including:
  - requiring principal risks to be presented in order of importance rather than listed alphabetically;
  - prohibiting the inclusion of non-principal risks in the prospectus; and
  - adding Form N-1A instructions on how to determine when a risk is principal.
- The Proposal also amends the advertising rules to require open-end and closed-end investment companies and business development companies to provide more transparent and balanced presentations of fees and expenses in investment company advertisements that are consistent with relevant prospectus fee table presentations.

As of the date of this Client Alert, the Proposing Release has not yet been published in the Federal Register. Comments on the Proposal will be due 60 days after publication.

[Download the Complete Client Alert here.](#)

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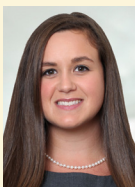
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