

Information typically included in a shareholder report would be included only in Form N-CSR.

Financial highlights, schedule of investments, board approval of advisory agreements and shareholder meeting results, among other items, would be included only in the Form N-CSR filing.

Funds would be encouraged to use graphic or text features.

Staff guidance and comments would be codified,

including:

- concise and tailored principal risk disclosure must be listed in order of importance;
- non-principal risks would be prohibited in the prospectus; and
- broad-based index definition would be more clearly defined.

An instruction also would be added to Form N-1A to provide guidance on how to determine when a risk is principal.

Amendments to the advertising rules

are proposed to require open-end and closed-end funds to provide transparent and balanced presentations of fees and expenses.

Shareholder reports, rather than prospectuses, would serve as the primary fund disclosure document for shareholders.

The reports 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.

Significant changes to prospectus disclosure requirements

- would include:
- simplified fee table in the prospectus summary section with the existing fee table moved to the statutory prospectus
 - simplifying certain terms in the current fee table
 - 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.

New Rule 498B would permit funds to forego the current practice of annually delivering updated prospectuses to existing shareholders.

Instead of delivering annual update prospectuses, funds would provide timely notification of material changes to certain Form N-1A items, which together with the new condensed shareholder report, would keep shareholders informed.

Rule 30e-3 would no longer apply to mutual funds and ETFs.

Issues to Consider:

- Will new website linking technology be required to comply with the new Rule 498B requirement to link similar information found in the prospectus, SAI and shareholder reports?
- Will funds be exposed to additional liability by having to explicitly identify what changes are considered material?
- Will the SEC's requirement to identify disclosure changes in the shareholder report under the heading of material changes result in more frequent 485(a) filings by funds?
- Will the proposal require more or less frequent sticking of prospectuses that would be required to be mailed to shareholders?
- Will fund groups need to accelerate their standard annual prospectus update process to comply with the requirement to include material changes in a fund's annual report?
- Should the SEC make the summary shareholder report optional rather than required, to provide funds flexibility to tailor communications to the needs of their shareholders?
- How will funds communicate additional disclosures to shareholders that previously were communicated via annual reports, such as tax disclosures?
- Has the cost of excluding open-end funds from reliance on Rule 30e-3 been appropriately accounted for given the significant resources that many funds and advisers have already invested in compliance with this rule?
- Is disclosure of key features of a fund's LRMP necessary, given the broad oversight responsibilities of the Board, and will LRMP disclosure be helpful to shareholders?
- Because there appears to be no ability to restate expenses in the new fee table, how will funds communicate new changes to expenses (such as reductions in certain fees) given that the annual report expense information is backward looking?
- Are the SEC cost estimates accurate in light of the significant disclosure changes, such as the requirement to mail shareholder reports and to create a separate shareholder report for each fund?
- What would be the impact of funds having to bear additional costs to license an additional broad-based index if necessary to meet the SEC's clarified definition?