



All that's hot in the mutual fund industry

An Information Service of Money-Media

[Print](#) | [Close Window](#)

SEC Sets Sights on Overhauling Fund Filings

Article published on Dec 3, 2004

By [Alison Sahoo](#)

As 2004 comes to a close, the SEC is putting prospectus revisions down as something it wants to tackle in the future.

Specifically, SEC commissioners believe fund prospectuses have become too difficult for investors to wade through. Although there's no firm schedule yet, the staff is getting ready for what could be a major overhaul. And it may not be limited to just fund prospectuses.

"We would look at comprehensive revision," says Division of Investment Management associate director Susan Nash. "The commissioners have said that we need to take a comprehensive look at the disclosure regime, not just in terms of what information is out there but also how it's presented."

That effort could include the prospectus as well as other documents.

"It's not limited to the prospectus," says Nash. "We want to look generally at how information is out there and what the best way to present that information is."

The prospectus is at the top of the list, she says, because investors use it to make purchasing decisions.

The goal, says Nash, is to make the reports more inviting and investor-friendly. That's particularly true, she says, for the sections on key information such as expenses, investment objectives and risks.

Document length is always an issue, says Nash, since investors considering several different funds won't take the time to read each prospectus cover to cover. But it's not just a question of slimming things down or summarizing information.

"We're trying to come up with a way to prioritize information, get the key data in people's hands and let them know what else is there," says Nash.

"That could mean moving things out of the prospectus or making greater use of the Web," she says. "It may mean layering disclosure more."

For example, she says, the staff recently rejiggered the portfolio holdings schedule by increasing the frequency of reporting from semiannual to quarterly. But in doing so it gave funds an option to include their top 50 holdings in shareholder reports instead of the full schedule.

With several important scandal-related proposals still outstanding, however, the commission doesn't have a lot of extra time on its hands to start a big new initiative.

Nash says she can't speculate on when the work would begin. One observer notes that prospectus revision seems to occur in cycles.

"Every 10 years or so the industry convinces the SEC that the prospectus is getting burdensome and information is moved out into the SAI [statement of additional information]," he says. "But as the SEC passes new rules requiring greater shareholder disclosure, the prospectus gets bogged down again."

Kirkpatrick & Lockhart partner Diane Ambler says there is some uncertainty as to what the true purpose of the prospectus is.

Some believe it should be educational, she says, whereas others use it as a legal defensive document. By putting as much information as possible into the prospectus, it's hard to say that investors weren't provided with detail about their funds.

"It would be worthwhile for the commission to look at what the goal of the prospectus is," she says.

McGuiness & Holch partner Niels Holch says he supports efforts to make investors more aware of what they're purchasing but believes that more effort should be put into the SAI.

Holch is a co-founder of mutual fund advocacy group The Coalition of Mutual Fund Investors (CMFI). The organization is currently lobbying for easier access for fund investors to the SAI.

The SAI can be several hundred pages long and contains considerable detail about the fund. It includes information such as detailed expense breakdowns, codes of ethics, investment techniques and restrictions and share price calculations.

Ignites

Ignites is a copyrighted publication. Ignites has agreed to make available its content for the sole use of the employees of the subscriber company. Accordingly, it is a violation of the copyright law for anyone to duplicate the content of Ignites for the use of any person, other than the employees of the subscriber company.

[Back to Top](#)