

Alert | Investment Management



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SEC Proposes Rule Changes to Mutual Fund and Exchange Traded Fund Disclosures

On Aug. 5, 2020, the SEC proposed modifications to current rules and forms that would significantly change the disclosures required of mutual funds and exchange traded funds (ETFs) that report on SEC Registration Statement Form N-1A, so-called “open-ended funds.” The scheme would create a new rule, 498B, and amend several rules and forms. The rule changes, now open for comment, will revise the required annual information provided to shareholders of these funds, focusing on making information more available and useful to retail investors. The proposal is about “improving the Main Street investor experience and modernizing information content and delivery,” according to SEC Chairman Jay Clayton. Overall, it seeks to do away with the current distributions to shareholders of annual updates to prospectuses and delivery of semiannual reports in favor of a “streamlined shareholder report.” Highlights of the proposed changes as well as links to the release, the proposed rule changes, and a summary chart follow.

Streamlined Shareholder Reports

Under the proposed changes, shareholder reports would move from text-heavy disclosures to retail investors that may be difficult and cumbersome, to a more approachable graphical and textual interface that might include, among other things, “tables, bullet lists, and question-and-answer formats.” The proposed format would allow retail investors to more easily understand performance, risks, and other information that would help them make their investment choices. Current information funds must produce in annual or semi-annual reports, that may be valuable to professionals or those who seek more

information, would still be available online. That broader information would be filed on a semi-annual basis with the Commission on form N-CSR.

Prospectus Changes

Under the new rule, investors would still receive a summary prospectus upon their initial investment, but updates and annual prospectuses would only be required to be provided electronically or by paper upon request. Annual information would be provided in summary format on the new shareholder reports, and changes would be provided via timely notifications.

The rule also seeks to change the way that fund fees and risks are disclosed to investors. The new “layered” disclosure for fees would partly “(1) replace the existing fee table in the summary section of the statutory prospectus with a simplified fee summary, (2) move the existing fee table to the statutory prospectus, for use by investors seeking additional details about fund fees, and (3) replace certain terms in the current fee table with terms that may be clearer to investors.” Additionally, the changes would modify the way that acquired funds’ fees and expenses associated with open-ended fund investments in other funds are reported. The new approach would allow reporting of the fees as a footnote in the fee table and fee summary as opposed to a fee table line item.

As for changes to the risk disclosures, the goal of the proposed rules is to make fund risks more transparent and include information about how principal risks of a fund can be evaluated.

Amendment to Rule 30e-3

The proposed changes seek to amend Rule 30e-3 by excluding open-ended funds from the benefits of that rule. Rule 30e-3 gives funds the option to begin transmitting notices to investors that investor reports and other required disclosures are available online in lieu of sending the materials directly to investors. This rule is set to begin Jan. 2, 2021. The rationale for excluding open-ended funds is a desire to require such funds to transmit the new Shareholder Report format to all of their investors directly.

Investment Company Advertisement Changes Regarding Fee and Expense Information

Amendments to existing rules would also require that fee and expense information in advertisements and sales literature are generally up-to-date and consistent with relevant prospectus fee table presentations. The proposed amendments also address fee and expense representations that could be materially misleading; they would also affect advertisements of all registered investment companies (not just open-ended funds) and business development companies.

The proposed new rule and amendments are available on the SEC website and will be published in the Federal Register. Comment will be open for 60 days after publication in the Federal Register.

[View the Aug. 5 SEC Press Release.](#)

[View the proposed rule.](#)

[View a chart of the changes from current reporting to the proposed new shareholder report.](#)

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