CARLTON FIELDS

SEC Proposes Big Changes to Fund Disclosure

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The SEC has proposed "comprehensive modifications to the mutual fund … disclosure framework," as highlighted below. More detailed analysis of the proposal is also available in our legal alert. *See* "SEC Proposes Changes to Fund Shareholder Reports, Prospectuses, SAIs, and Ads."

Shareholder reports would become the "central source of fund disclosure for existing shareholders." Funds would no longer send annual updated prospectuses to shareholders.

Funds would have drastically shortened shareholder reports — three or so pages — delivered electronically. Financial statements, schedules of investments, financial highlights, and information on directors, officers, and investment advisory agreement approval would be removed but available to shareholders in paper at no charge on request.

The annual reports would be required to include a narrative setting out changes that a fund had made in its disclosure documents during the year, even if the fund had previously provided the disclosure to shareholders by prospectus sticker. The narrative would also set out disclosure changes that the fund planned to make in its annually updated prospectus.

Prospectus disclosure would be modified:

- Fee tables and terms would be simplified, and disclosure of certain acquired fund fees and expenses would be deemphasized;
- Principal risks would be disclosed in order of importance, rather than alphabetically or otherwise; and
- Performance would be compared to the overall applicable market, in addition to any narrow index against which a fund chooses to compare itself.

Any ads showing fee and expense figures would be required to include maximum sales loads, nonrecurring fees, and total annual expenses. Funds advertising “zero expenses” would be required to consider disclosing intermediary fees like wrap fees, securities lending fees, and adviser fees that the adviser is waiving.

For variable insurance products offered through SEC-registered separate accounts:

- The proposal’s changes to the required contents of fund disclosure documents generally would apply for underlying funds the same way as for retail funds selling directly to the public.
- The proposal, however, generally would not otherwise modify or supersede the SEC’s recently adopted disclosure reforms — including summary prospectus delivery — in connection with variable insurance products.

As of the date of publication, the comment period expiration date has not been set.

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