

SEC Revamps Fund Shareholder Reporting and Fee/Expense Advertising Rules

February 16, 2023

On October 26, 2022, the SEC adopted rule and form amendments establishing a new framework for annual and semiannual reports provided by mutual funds and exchange-traded funds that are registered on Form N-1A (funds). The SEC also voted to amend the advertising rules for registered investment companies and business development companies. The rulemaking consists of four principal elements.

Tailored Shareholder Reports

The new rules will require funds to transmit to shareholders “concise and visually engaging” annual and semiannual reports that highlight key information for investors such as fund expenses, performance, and portfolio holdings. The focused content requirements are expected to reduce the length of shareholder reports to a few pages. The new rules will also give funds the ability to make electronic versions of their shareholder reports more user-friendly and interactive. In addition, funds will be required to tag the information in their shareholder reports by using structured data language, which will allow investors and other interested parties to use automated analytical tools to readily extract information from within a filing.

Availability of Additional Information

The new rules will require that more in-depth information, such as a fund’s schedule of investments and other financial statement elements, be made available to shareholders online. This information will have to be filed with the SEC on a semiannual basis on Form N-CSR and will also have to be delivered free of charge in paper or electronically upon request.

Diminished Scope of Rule 30e-3

As an alternative to delivering shareholder reports in paper, Rule 30e-3 generally permits investment companies to meet shareholder report transmission requirements by making these reports and other materials available online and providing a notice of the reports' online availability. This method of transmitting shareholder reports has been available to funds since January 1, 2021. The new rules, however, will exclude investment companies that are registered on Form N-1A from the scope of Rule 30e-3, including funds that serve as underlying funds of insurance company separate accounts. This change is sure to dismay many, especially those who now needlessly have spent time and resources altering their existing shareholder report delivery systems to avail themselves of the rule's optional delivery framework.

Fee and Expense Information in Advertisements

The new rules will require that presentations of investment company fees and expenses in advertisements and sales literature be consistent with relevant prospectus fee table presentations and be reasonably current. These rule amendments will affect all registered investment company and business development company (BDC) advertisements that include fee and expense figures. The new rules also address presentations of fees and expenses that could be materially misleading.

Compliance Dates

The new rules had an effective date on January 24, 2023. There is an 18-month transition period to allow funds time to adjust their shareholder reports and comply with the Rule 30e-3 changes. Investment companies and BDCs also have an 18-month transition period to comply with the new advertising rules. However, the new rules addressing presentations of fees and expenses apply on the effective date.

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