This document is scheduled to be published in the
Federal Register on 11/05/2020 and available online at
**federalregister.gov/d/2020-17449**, and on **govinfo.gov**

**8011-01p**
**SECURITIES AND EXCHANGE COMMISSION**

**17 CFR Parts 200, 230, 239, 240, 270, and 274**

**[Release Nos. 33-10814; 34-89478; IC-33963; File No. S7-09-20]**

**RIN 3235-AM52**

# Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements

**AGENCY:** Securities and Exchange Commission.

**ACTION:** Proposed rule.

**SUMMARY:** The Securities and Exchange Commission ("Commission") is proposing rule and form amendments that would modernize the disclosure framework for open-end management investment companies. The disclosure framework would feature concise and visually engaging shareholder reports that would highlight key information that is particularly important for retail investors to assess and monitor their fund investments. Certain information that may be less relevant to retail investors—and of more interest to financial professionals and investors who desire more in-depth information—would no longer appear in funds' shareholder reports but would be available online, delivered free of charge upon request, and filed on a semi-annual basis on Form N-CSR. Funds' shareholder reports would serve as the central source of fund disclosure for existing shareholders. Thus, instead of delivering prospectus updates to existing shareholders each year, open-end funds would have an alternative way to keep shareholders informed. This framework would rely on the shareholder report (which would include a summary of material fund changes), along with

timely notifications to shareholders about material fund changes as they occur and continued availability of the fund's prospectus. The Commission is also proposing amendments to open-end fund prospectus disclosure requirements to provide greater clarity and more consistent information about fees, expenses, and principal risks. Finally, the Commission is proposing amendments to the advertising rules for registered investment companies and business development companies to promote more transparent and balanced statements about investment costs.

**DATES:** Comments should be received by [insert date 60 days after publication in the *Federal Register*].

**ADDRESSES:** Comments may be submitted by any of the following methods:

*Electronic comments:*

- Use the Commission's internet comment form (https://www.sec.gov/rules/submitcomments.htm); or
- Send an email to *rule-comments@sec.gov*. Please include File No. S7-09-20 on the subject line.

*Paper comments:*

- Send paper comments to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number S7-09-20. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's website (http://www.sec.gov/rules/proposed.shtml). Comments are also available for website viewing and printing in the Commission's Public

Reference Room, 100 F Street NE, Room 1580, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information you wish to make available publicly. Persons wishing to provide comments regarding the proposal may wish to submit our Investor Feedback Flier or Smaller Fund Feedback Flier, available at Appendices B and C, respectively.

Studies, memoranda, or other substantive items may be added by the Commission or staff to the comment file during this rulemaking. A notification of the inclusion in the comment file of any such materials will be made available on the Commission's website. To ensure direct electronic receipt of such notifications, sign up through the "Stay Connected" option at www.sec.gov to receive notifications by email.

**FOR FURTHER INFORMATION CONTACT:** Zeena Abdul-Rahman, Daniel K. Chang, Mykaila DeLesDernier, Pamela K. Ellis, Angela Mokodean, Senior Counsels; Amanda Hollander Wagner, Branch Chief; or Brian McLaughlin Johnson, Assistant Director, at (202) 551-6792, Investment Company Regulation Office; Daniel Rooney, Assistant Chief Accountant; Keith Carpenter or Michael Kosoff, Senior Special Counsels, at (202) 551-6921, Disclosure Review and Accounting Office; Division of Investment Management; U.S. Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

**SUPPLEMENTARY INFORMATION:** The Commission is proposing new 17 CFR 230.498B [new rule 498B] under the Securities Act of 1933 ("Securities Act").[1] We also are proposing amendments to the following rules and forms:

| Commission Reference | | CFR Citation [17 CFR] |
|---|---|---|
| Organization; Conduct and Ethics; And Information and Requests | | §§ 200.1 through 200.800 |
| | Section 800 | § 200.800 |
| Securities Act | Rule 156 | § 230.156 |
| | Rule 433 | § 230.433 |
| | Rule 482 | § 230.482 |
| | Rule 498 | § 230.498 |
| | Form N-14 | § 239.23 |
| Securities Act and Investment Company Act of 1940 ("Investment Company Act")[2] | Form N-1A | §§ 239.15A and 274.11A |
| Securities Exchange Act of 1934 ("Exchange Act")[3] | Schedule 14A | § 240.14a-101 |
| Exchange Act and Investment Company Act | Form N-CSR | §§ 249.331 and 274.128 |
| Investment Company Act | Rule 30e-1 | § 270.30e-1 |
| | Rule 30e-3 | § 270.30e-3 |
| | Rule 31a-2 | § 270.31a-2 |
| | Rule 34b-1 | § 270.34b-1 |

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1 15 U.S.C. 77a *et seq*.

2 15 U.S.C. 80a *et seq*.

3 15 U.S.C. 78a *et seq*.

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## I. INTRODUCTION AND BACKGROUND

The Commission is proposing to tailor the disclosures that mutual funds and exchange-traded funds ("ETFs" and, collectively with mutual funds, "funds") must provide to investors to highlight key information investors need to assess and monitor their fund investments and make informed investment decisions.[4] Currently, most mutual funds and ETFs rely on a layered disclosure framework with respect to the prospectus information they provide to fund investors in order to tailor this disclosure to investors' informational needs.[5] The vast majority of funds provide: (1) a summary prospectus to investors in connection with their initial investment decision; and (2) more-detailed information that may be of interest to some investors, which is available online in the form of the "statutory prospectus" and Statement of Additional Information ("SAI").[6] However, this approach to layered, tailored

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4 For purposes of this release, the term "fund" generally refers to an open-end management investment company registered on Form N-1A or a series thereof, unless otherwise specified. Mutual funds and most ETFs are open-end management investment companies registered on Form N-1A. An open-end management investment company is an investment company, other than a unit investment trust or face-amount certificate company, that offers for sale or has outstanding any redeemable security of which it is the issuer. *See* sections 4 and 5(a)(1) of the Investment Company Act [15 U.S.C. 80a-4 and 80a-5(a)(1)].

5 Throughout this release, we generally use the term "investor" to refer to both prospective investors in a fund and fund shareholders (*i.e.*, persons who hold an investment in securities issued by a fund). We generally use the term "shareholder" to refer specifically to those who hold an investment in securities issued by a fund.

6 *See* section 5(b)(2) of the Securities Act [15 U.S.C. 77e(b)(2)] (generally requiring that a fund or financial intermediary deliver a prospectus to an investor in connection with his or her purchase of the fund's securities). Funds generally amend their prospectuses annually to reflect changes to the disclosed information.

A fund's prospectus generally must include information contained in the fund's registration statement. *See* section 10(a) of the Securities Act [15 U.S.C. 77j(a)]. For purposes of this release, a prospectus meeting the requirements of a section 10(a) prospectus is referred to as a "statutory prospectus." Form N-1A requires a fund to disclose the information that Items 2 through 8 of Form N-1A require in numerical order at the front of the prospectus. *See* General Instruction C.3.a to Form N-1A. For purposes of this release, we refer to this front section of

disclosure does not extend to other disclosure funds provide to their shareholders. After making their initial decision to invest in a fund, fund shareholders typically receive an updated prospectus annually, as well as annual and semi-annual shareholder reports (or "annual reports" and "semi-annual reports" respectively, and collectively "shareholder reports").[7] These shareholder reports provide detailed information about a fund's operations and activities during the last full- or half-year period and can be quite lengthy. For example, it is not unusual for annual reports to exceed 100 pages in length.

In June 2018, the Commission issued a request for comment seeking feedback on retail investors' experience with fund disclosure and on ways to improve fund disclosure.[8] We have considered feedback the Commission received in response to this request for comment, which generally showed that retail investors prefer concise, layered disclosure and feel overwhelmed by the volume of fund information they currently receive. We have also

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the statutory prospectus as the "summary section of the statutory prospectus."

A fund may use a summary prospectus (which includes the information required or permitted by Items 2 through 8 of Form N-1A) to satisfy prospectus delivery obligations under certain conditions (*e.g.*, the statutory prospectus is posted online). *See* rule 498 under the Securities Act [17 CFR 230.498]. For purposes of this release, a summary prospectus that a fund uses to satisfy its prospectus delivery obligations, as rule 498 permits, is referred to as a "summary prospectus."

7 *See* section 30(e) of the Investment Company Act [15 U.S.C. 80a-29(e)]; rule 30e-1 under the Investment Company Act [17 CFR 270.30e-1]. Shareholders in a fund typically receive an annual update of the fund's prospectus to satisfy prospectus delivery requirements for any additional shares of the fund the shareholder may purchase. *See infra* discussion accompanying and following footnote 11. In addition to the annual prospectus update, a shareholder also may receive prospectus supplements, or "stickers," during the year if material or other changes occur to the fund. *See infra* footnote 13 and accompanying text.

8 *See* Request for Comment on Fund Retail Investor Experience and Disclosure, Investment Company Act Release No. 33113 (June 5, 2018) [83 FR 26891 (June 11, 2018)] ("Fund Investor Experience RFC").

considered prior investor testing and surveys, past fund disclosure reform initiatives, and developments affecting fund disclosure practices.[9]

After considering this information, we are proposing a layered disclosure framework for fund shareholders that would highlight key information for assessing and monitoring a fund investment and informing investment decisions (*e.g.*, whether to buy additional shares, continue to hold, or sell a fund investment), with additional information available online and upon request. The proposal would implement this new framework principally by amending the requirements for funds' annual and semi-annual reports to highlight information that we believe is particularly important for retail shareholders to assess and monitor their ongoing fund investments. These tailored shareholder reports would serve as the primary fund disclosure that existing shareholders receive each year, in addition to notices of certain material changes if they occur during the year.

The proposal is designed to alleviate concerns that fund retail shareholders currently may receive disclosure materials that are not well-suited to their needs, which may contribute to investor confusion or indifference. Current disclosures, for example, may include information that is less useful for most retail shareholders to assess and monitor their fund investments, either because the information is primarily designed to inform an initial purchase decision, or because the information is of interest to only some investors (for example, those investors who want detailed fund information), as well as financial professionals and market analysts. Furthermore, current fund disclosures in some cases are delivered close in time to

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[9] *See, e.g.*, *infra* Sections I.B and I.C.

one another and include similar sets of information that may appear redundant or inconsistent to shareholders. Under the proposal, the amounts and types of available fund information would remain largely unchanged. However, information that is of interest only to some shareholders, or information that we believe generally is less useful for purposes of assessing and monitoring an ongoing investment, would be available online and delivered upon request to fund shareholders who want that additional information.

In addition to layering disclosure for existing fund shareholders, we are proposing certain amendments to the way funds present their fees and expenses and principal risks in prospectuses. Many retail investors responding to the Fund Investor Experience RFC stated that current fee and expense and principal risk disclosure is difficult to understand and use. The proposed amendments are designed to provide investors with simpler, easier-to-understand information about a fund's fees and expenses and principal risks, including a summary presentation of bottom-line fee figures that uses plain language descriptions and more concise principal risk disclosure that generally orders risks by importance. Consistent with the current layered approach to prospectus disclosure, additional information about a fund's fee and expenses and risks would remain available for interested investors.

To improve the clarity of fee and expense information that is available to investors more generally, we also propose to amend the Commission's investment company advertising rules. The proposed amendments would require that a registered investment company or business development company ("BDC") advertisement discussing fees and expenses include certain standardized figures and provide reasonably current information. In addition, we are proposing amendments to address potentially misleading statements about fees and expenses in these investment company advertisements.

### A. Current Approach to Disclosure for Fund Shareholders

Today, a fund investor receives a prospectus in connection with his or her initial purchase of fund shares. A fund's prospectus serves as the principal selling document for potential investors to help inform investment decisions and facilitate fund comparisons. Fund prospectuses provide important information that an investor should consider when making an investment, including information about a fund's principal investment strategies, fees and expenses, principal risks, and performance.[10] Under the Federal securities laws, a fund (or a financial intermediary) must deliver an updated copy of the fund's summary or statutory prospectus to an existing fund shareholder if the shareholder purchases additional shares of the fund.[11] We understand that, to satisfy applicable prospectus delivery requirements, most funds send an updated summary or statutory prospectus annually to all shareholders to avoid the need to track each shareholder's additional purchase activity throughout the year. Other

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[10] *See, e.g.*, Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Investment Company Act Release No. 28584 (Jan. 13, 2009) [74 FR 4546 (Jan. 26, 2009)] ("2009 Summary Prospectus Adopting Release"). The summary prospectus that the Commission adopted took into account investors' preferences as reflected in focus group interviews and a telephone survey. *See* 2009 Summary Prospectus Adopting Release at n.32 and accompanying text.

[11] Section 10(a)(3) of the Securities Act, and section 24(e) and 17 CFR 270.8b-16 [rule 8b-16 under the Investment Company Act], generally require a fund to update its registration statement (which includes its prospectus) annually. The effect of section 10(a)(3) is to require funds to update their prospectuses annually to reflect current fee, performance, and other financial information (the "annual prospectus update").

Section 5(b)(2) of the Securities Act makes it unlawful to deliver a security for purposes of sale or for delivery after sale "unless accompanied or preceded" by a statutory prospectus. Because the requirements of section 5(b)(2) are applicable to "any person," its obligations apply to financial intermediaries through which funds are sold, as well as to the funds themselves. *See supra* footnote 6 (recognizing that a fund or financial intermediary may deliver a summary prospectus to satisfy this prospectus delivery obligation under certain conditions).

funds may track this activity and send a summary or statutory prospectus only to those shareholders who have purchased fund shares during the relevant period. The vast majority of funds use summary prospectuses.[12] Outside of the annual prospectus update, a fund shareholder may also receive updates at other times during the year when a fund supplements, or "stickers," its prospectus disclosure to reflect material or other changes.[13]

In addition to annual prospectus updates and interim stickers, fund shareholders also receive shareholder reports on a semi-annual basis.[14] These reports include detailed information about a fund's operations over a given half- or full-year period, including information about the following items. Certain of this information, including fund performance information, appears only in annual reports.

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[12] We estimate that as of December 31, 2018, approximately 93% of mutual funds and ETFs use summary prospectuses. This estimate is based on data on the number of mutual funds and ETFs that filed a summary prospectus in 2018 in the Commission's Electronic Data, Gathering, Analysis, and Retrieval system ("EDGAR") (10,808) and the Investment Company Institute's estimated number of mutual funds and ETFs as of December 31, 2018 (11,656). *See* Investment Company Institute, 2019 Investment Company Fact Book, at 50, *available at* https://www.ici.org/pdf/2019_factbook.pdf.

[13] *See generally* 17 CFR 230.497 [rule 497 under the Securities Act]; *see also* section 12(a)(2) of the Securities Act (providing a civil remedy if a prospectus includes an untrue statement of a material fact or omits to state a fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading); 17 CFR 230.408 [rule 408 under the Securities Act] (requiring registrants to include, in addition to the information expressly required to be included in a registration statement, such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading).

[14] *See* section 30(e) of the Investment Company Act [15 U.S.C. 80a-29(e)]; rule 30e-1 under the Investment Company Act [17 CFR 270.30e-1]. A fund or an intermediary may transmit the shareholder report to an investor. Most fund investors engage an investment professional and hold their fund investments as beneficial owners through accounts with intermediaries. As a result, intermediaries commonly assume responsibility for distributing fund shareholder reports to beneficial owners. *See* Optional Internet Availability of Investment Company Shareholder Reports, Investment Company Act Release No. 33115 (June 5, 2018) [83 FR 29158 (June 22, 2018)] ("Rule 30e-3 Adopting Release"), at paragraph accompanying n.274.

- The ongoing costs of a $1,000 fund investment for the most recent fiscal half-year, including actual expenses (which a shareholder can use to understand his or her ongoing costs of investing in the fund) and hypothetical expenses (which a shareholder can use to compare different funds' ongoing costs);
- Performance, including information about the fund's performance over the past 10 years and fund management's discussion of fund performance for the last fiscal year;
- Portfolio holdings, which includes a list of the fund's investments and graphical representations of the fund's holdings by certain categories (*e.g.*, type of security, industry sector, geographic region, credit quality, or maturity);[15]
- Fund financials, including financial statements and financial highlights, which are audited in annual reports;[16]
- A fund's board of directors and management, including remuneration that the fund paid to these and certain other parties;
- Results of any shareholder vote held during the relevant period;
- The availability of additional information regarding the fund's proxy voting record, code of ethics, quarterly portfolio holdings, and board of directors;

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[15] A fund may include a summary schedule of its investments in securities of unaffiliated issuers, which includes approximately its 50 largest holdings, in the financial statements it provides in the shareholder report, provided it makes the complete list of investments in unaffiliated issuers available online and upon request. Alternatively, a fund must include that complete list of its investments in securities of unaffiliated issuers in its shareholder reports. *See* Instruction 1 to Item 27(b)(1) of Form N-1A; Instruction to Item 27(c)(1) of Form N-1A; 17 CFR 210.12-12B [rule 12-12B of Regulation S-X].

[16] *See* Items 27(b)(1) and 27(b)(2) of Form N-1A. The financial statements and financial highlights in a fund's semi-annual report need not be audited. *See* Items 27(c)(1) and 27(c)(2) of Form N-1A.

- Changes in and disagreements with fund accountants;
- Any board approval of an investment advisory contract during the relevant period; and
- The operation and effectiveness of the fund's liquidity risk management program.[17]

Additionally, some funds currently include other information in their shareholder reports that is not required by Commission rules or forms. For example, some funds typically include in their shareholder reports information such as president's letters, interviews with portfolio managers, market commentary, or specific portfolio statistics that are not required (*e.g.*, top ten largest holdings, summary statistics with respect to debt yields and maturities).[18] Based on staff analysis, the average annual report is approximately 134 pages long, and the average semi-annual report is approximately 116 pages long.[19]

Shareholder reports and prospectuses provide some of the same categories of information, including information about expenses and performance. A fund shareholder typically receives an annual report and an annual prospectus update close in time, commonly

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[17] *See* Item 27(b), (c), and (d) of Form N-1A; rule 30e-1(b) under the Investment Company Act [17 CFR 270.30e-1(b)].

[18] *See, e.g.*, Fund Investor Experience RFC, *supra* footnote 8, at Section II.D.5.

[19] We recognize, however, that the length of funds' shareholder reports can vary substantially. For example, the staff observed annual reports ranging in length from 22 pages to more than 600 pages. These figures are based on a 2020 staff review that included a sample of reports from large, mid-sized, and small funds that were available on fund websites. One apparent reason for the different lengths of these reports is that some reports covered a single fund (or series), while others covered many. For example, most reports that were between 22 and 45 pages long covered a single series. However, the number of series a report covered did not solely explain the differences in length. For reports that were longer than 45 pages, there generally was not a clear and consistent relationship between the number of series a report covered and the report's length. *See also* Comment Letter of Investment Company Institute on File No. S7-08-15 (Mar. 14, 2016), at n.49, *available at* https://www.sec.gov/comments/s7-08-15/s70815-581.pdf (estimating that, in 2016, the average annual report was 114 pages long).

within two months of one another.[20] We understand that some funds even deliver a shareholder report and the annual prospectus update at the same time.

With respect to the delivery mechanism, a fund shareholder currently receives shareholder reports and prospectuses in paper or electronically.[21] We understand that shareholders electing electronic delivery of fund disclosure materials typically receive an email that contains a link to where the materials are available online. Additionally, if a fund chooses to rely on rule 30e-3, beginning as early as January 1, 2021, a shareholder who currently receives fund shareholder reports in the mail may begin receiving instead notices that a shareholder report is available at an identified website address.[22] Nonetheless, a shareholder may continue to receive the full report in paper if he or she notifies the fund (or relevant financial intermediary) that he or she wishes to receive paper copies of the reports. The costs of delivering prospectuses and shareholder reports, including printing and mailing costs and processing fees, are generally fund expenses borne by shareholders.

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[20] Under rule 30e-1, funds generally must transmit annual reports within 60 days after the close of the fiscal year. *See* rule 30e-1(c) [17 CFR 270.30e-1(c)]. Under Securities Act section 10(a)(3) and Investment Company Act rule 8b-16(a), funds typically update their prospectuses within 120 days of the end of fiscal year-end, and updated prospectuses are often delivered to existing shareholders soon thereafter.

[21] *See* Use of Electronic Media for Delivery Purposes, Investment Company Act Release No. 21399 (Oct. 6, 1995) [60 FR 53458 (Oct. 13, 1995)] (providing Commission views on the use of electronic media to deliver information to investors, with a focus on electronic delivery of prospectuses, annual reports, and proxy solicitation materials); Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information, Investment Company Act Release No. 21945 (May 9, 1996) [61 FR 24644 (May 15, 1996)]; Use of Electronic Media, Investment Company Act Release No. 24426 (Apr. 28, 2000) [65 FR 25843 (May 4, 2000)].

[22] *See* rule 30e-3 under the Investment Company Act [17 CFR 270.30e-3]; Rule 30e-3 Adopting Release, *supra* footnote 14.

Beyond prospectuses and shareholder reports, many funds prepare other information for potential or current investors that the securities laws and Commission rules do not require. For example, many funds prepare advertising materials, which can include materials in newspapers, magazines, radio, television, direct mail advertisements, fact sheets, newsletters, and on various web-based platforms. Advertising materials are subject to certain requirements under Commission rules.[23] As an example, many funds prepare monthly or quarterly fact sheets that concisely provide certain information about a fund, such as the fund's performance and strategies, illustrations of the fund's holdings, and certain fund statistics (*e.g.*, net asset value, expense ratio). Fact sheets are often one or two pages long. Some shareholders or financial professionals may use fact sheets to monitor fund investments because, for example, they include more up-to-date performance information than shareholder reports or prospectuses.

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[23] *See infra* Section II.I (discussing the Commission's advertising rules and certain proposed changes to these rules).

### B. Information about Investor Preferences

Our understanding of investor preferences regarding fund disclosure is informed by many sources, including responses to the Fund Investor Experience RFC, prior investor testing and surveys, and past disclosure reform initiatives. In response to the Fund Investor Experience RFC, the Commission received many comments from individual investors, including through a Feedback Flier on Improving Fund Disclosure (the "Feedback Flier") that accompanied the release to facilitate retail investor input.[24] In addition to the input we received from individual investors, some other commenters on the Fund Investor Experience RFC provided the results of investor surveys they conducted regarding fund disclosure.[25] Moreover, the Commission and its staff have been involved with other relevant investor testing and surveys, including investor testing regarding shareholder reports in 2011 and a study on financial literacy in 2012.[26] Several past Commission rulemakings have also provided information about investors' disclosure preferences, including rulemakings regarding summary prospectuses for mutual funds and ETFs, summary prospectuses for variable annuity and variable life insurance contracts, and broker-dealer and investment adviser relationship summaries.[27]

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[24] The majority of individual investors responding to the Fund Investor Experience RFC used the Feedback Flier to provide their views. *See* Fund Investor Experience RFC, *supra* footnote 8, at Appendix B. Unless otherwise indicated, comments cited in this release are the public comments on the Fund Investor Experience RFC, *supra* footnote 8, which are available at https://www.sec.gov/comments/s7-12-18/s71218.htm.

[25] *See, e.g.*, Comment Letter of Broadridge Financial Solutions, Inc. (Oct. 31, 2018) ("Broadridge Comment Letter I"); Comment Letter of the Consumer Federation of America (Oct. 31, 2018) ("CFA Comment Letter"); Comment Letter of Investment Company Institute (Oct. 24, 2018) ("ICI Comment Letter I"); Comment Letter of Broadridge Financial Solutions, Inc. (Apr. 28, 2020) ("Broadridge Comment Letter II").

[26] *See* Investor Testing of Selected Mutual Fund Annual Reports (Feb. 9, 2012) ("2012 Report

### 1. Fund Shareholder Preferences Regarding Ongoing Disclosures

Based on available information, as detailed below, we understand that many fund shareholders would prefer to receive a smaller volume of fund disclosures each year. In addition, many shareholders view funds' current annual and semi-annual reports as overly long and complex. Available evidence suggests that, as a result of the volume and complexities of fund disclosures, many shareholders do not read much, if any, of the ongoing disclosures they receive. We understand that fund shareholders would prefer concise, layered shareholder report disclosure that highlights key information and that uses design features to make the reports easier to understand and use.

*Investor Preferences for Concise, Layered Disclosure*

The vast majority of individual investors responding to questions in the Fund Investor Experience RFC about summary disclosure expressed a preference for summary disclosure with additional information available online or upon request, while only a very few stated that they did not prefer concise, summary disclosure.[28] Some investors specifically addressed and

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on Investor Testing of Fund Annual Reports"), *available at* https://www.sec.gov/comments/s7-08-15/s70815-3.pdf; SEC Staff, Study Regarding Financial Literacy Among Investors (Aug. 2012) ("Financial Literacy Study"), *available at* http://www.investor.gov/publications-research-studies/sec-research; *see also* Recommendation of the Investor Advisory Committee on Disclosure Effectiveness (May 21, 2020) ("IAC Disclosure Effectiveness Recommendation"), *available at* https://www.sec.gov/spotlight/investor-advisory-committee-2012/disclosure-effectiveness.pdf (discussing, among other things, research findings relating to investors' understanding of fund disclosure).

27 *See* 2009 Summary Prospectus Adopting Release, *supra* footnote 10; Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts, Investment Company Act Release No. 33814 (Mar. 11, 2020) [85 FR 25964 (May 1, 2020)] ("Variable Contract Summary Prospectus Adopting Release"); Form CRS Relationship Summary; Amendments to Form ADV, Investment Advisers Act Release No. 5247 (June 5, 2019) [84 FR 33492 (July 12, 2019)] ("Form CRS Adopting Release").

supported a more concise, summary shareholder report.[29] Moreover, several investors expressed concern about the current length of fund disclosure materials.[30] Commenters' overall preference for summary disclosure is generally consistent with other information the Commission has received—through investor testing, surveys, and other information-gathering—that similarly indicates that investors strongly prefer concise, layered disclosure.[31]

*Investor Views on the Usability and Design of Funds' Shareholder Reports*

Available evidence suggests that investors generally view fund shareholder reports as difficult to understand. Several investors responding to the Fund Investor Experience RFC stated that fund disclosure is too complicated.[32] For instance, many investors indicated that there is too much technical writing in fund disclosure.[33] Investors also expressed a strong preference for the inclusion of more tables, charts, and graphs in fund disclosure to make

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[28] For example, of the 49 individual investors who responded to a question about summary disclosure in the Feedback Flier, 46 investors preferred summary disclosure and three investors did not. *See, e.g.*, Comment Letter of Carol Palmer (June 5, 2018) ("Palmer Comment Letter"); Comment Letter of Perry Balke (June 5, 2018) ("Balke Comment Letter") ("Seems like there should be a disclosure for the ultimate investor and then additional/other disclosures for Advisors/Institutions to analyze."); Comment Letter of Sara Karlidag (June 6, 2018) ("Karlidag Comment Letter"); Comment Letter of Chip Morton (Dec. 28, 2018) ("Morton Comment Letter") ("I like the more detailed reports"). Investors who responded to the Fund Investor Experience outside of the Feedback Flier also supported more concise, summary disclosure. *See, e.g.*, Comment Letter of Virginia Lamp (Aug. 13, 2018); Comment Letter of Mark Pitts (July 15, 2018).

[29] *See, e.g.*, Comment Letter of Ann Watters (Oct. 8, 2018); Comment Letter of Allen Weaver (Oct. 8, 2018) ("Weaver Comment Letter"); Comment Letter of Steve Henry (Oct. 8, 2018) ("Henry Comment Letter").

[30] *See, e.g.*, Comment Letter of Carla Rojas (June 9, 2018) ("Rojas Comment Letter") (stating that fund disclosure is too long); Comment Letter of Richard Franco (Sept. 24, 2018) ("Franco Comment Letter"); Comment Letter of Lisa Nevin (June 13, 2018) ("Nevin Comment Letter"); Comment Letter of Mike Woods (Sept. 2, 2018) ("Woods Comment Letter"); Comment Letter of David (Aug. 30, 2018) ("David Comment Letter") (stating that fund disclosures are too overwhelming to be useful).

information more understandable to the average investor.[34] Similarly, the majority of investors participating in certain past quantitative and qualitative investor testing initiatives on the Commission's behalf expressed the view that funds' annual reports are written more for advanced investors, financial professionals, or regulators than for an average investor.[35] Investor surveys that other market participants have conducted further support the conclusion that investors view funds' shareholder reports as too lengthy and complicated, and difficult for the average investor to use to effectively find information of interest.[36] These surveys have found that, for example, approximately 41% to 72% of surveyed investors find fund shareholder reports difficult to understand.[37]

*Investors' Current Use of Fund Disclosures*

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31 *See, e.g.*, Broadridge Comment Letter I; ICI Comment Letter I; Broadridge Comment Letter II; 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26 (noting that the concept of a shortened annual report appealed to many focus group participants); *see also* 2009 Summary Prospectus Adopting Release, *supra* footnote 10, at Section II (discussing investors' preferences for summary disclosure with respect to fund prospectuses); Financial Literacy Study, *supra* footnote 26 (noting that, based on the feedback of commenters and the results of quantitative and qualitative research, "[w]ith respect to investment product disclosures, investors favor summary documents containing key information about the investment product"); Understanding Investor Preferences for Mutual Fund Information, Investment Company Institute (2006) ("Investor Preferences Report"), *available at* https://www.ici.org/pdf/rpt_06_inv_prefs_full.pdf; Form CRS Adopting Release, *supra* footnote 27, at n.36 (discussing similar preferences for concise disclosure with respect to broker-dealer and investment adviser relationship summaries); Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27, at n.33 (discussing commenters' support for layered disclosure in the case of variable annuity and variable life insurance contracts); IAC Disclosure Effectiveness Recommendation, *supra* footnote 26 (discussing, among other things, the use of layered disclosure as an approach to develop more investor-friendly disclosures).

32 *See, e.g.*, Karlidag Comment Letter; Rojas Comment Letter; Comment Letter of Melanie Jallah (June 12, 2018) ("Jallah Comment Letter"); Nevin Comment Letter; Comment Letter of Roberto Delmonte (June 15, 2018) ("Delmonte Comment Letter"); Broadridge Comment

Several investors responding to the Fund Investor Experience RFC stated that they do not review funds' disclosure materials at all.[38] Investor testing and surveys also suggest that many fund shareholders tend to read very little, if any, of funds' disclosure materials. For example, in one investor survey, 12% of fund shareholders stated that they "never" review mutual fund or ETF disclosure, while an additional 37% said that they review this disclosure "some of the time."[39] Another survey found that 63% of mutual fund shareholders who recalled receiving fund shareholder reports read, at most, very little of them.[40] Two other surveys found somewhat higher readership levels of shareholder reports, with only 4% and 8% of surveyed shareholders responding that they do not read the reports.[41] However, a majority of fund shareholders in one of these surveys also indicated that they spend 15 minutes or less reviewing the reports.[42]

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Letter I (stating that in a quantitative survey, 72% of investors who review mutual fund or ETF disclosure said they do not find the information easy to understand); Comment Letter of Helen and Bob Hague (Aug. 30, 2018) ("Hague Comment Letter") (stating that they understand summary prospectus disclosure, but not annual report disclosure); Comment Letter of Michael Dougle (Aug. 30, 2018) ("Dougle Comment Letter"); David Comment Letter.

33 *See, e.g.*, Comment Letter of Harold Thomas (June 8, 2018) ("Thomas Comment Letter"); Rojas Comment Letter; Jallah Comment Letter; Comment Letter of Kate Freedman (June 12, 2018) ("Freedman Comment Letter"); Nevin Comment Letter; Delmonte Comment Letter; Comment Letter of Rich Kirchoff (June 21, 2018) ("Kirchoff Comment Letter"); Comment Letter of Tom Arnold (June 23, 2018) ("Arnold Comment Letter") (stating that there is too much boilerplate in fund disclosures, which are legal documents instead of informative documents); Comment Letter of Mimi Solo (July 16, 2018) ("Solo Comment Letter"); Woods Comment Letter (stating that fund disclosure is not useful because there is too much boilerplate and legalese).

34 *See, e.g.*, Comment Letter of Jack Wilhelm (Aug. 30, 2018) ("Wilhelm Comment Letter"); Comment Letter of Frank W. (Aug. 30, 2018) ("Frank W. Comment Letter"); Comment Letter of Caryn Stiles (Aug. 30, 2018) ("Stiles Comment Letter"); Comment Letter of Mrs. Kellie (Aug. 30, 2018); Hague Comment Letter; Comment Letter of J.L. (Aug. 30, 2018) ("J.L.

Survey results relating to readership of shareholder reports also suggest that shareholders may not read some, or all, of a fund's shareholder report due, in part, to the fact that many view shareholder reports as overly long and complex documents that are not designed to meet the average shareholder's needs.[43] Fund shareholders may, however, be more likely to read a more concise version of a fund's shareholder report.[44] Academic research similarly suggests that, due to limits on an individual's ability to absorb and process information, investors may be more likely to understand and effectively use concise disclosure that is well-organized and focused on key information.[45]

*Investor Views on the Content of Funds' Shareholder Reports*

Investors participating in investor testing and surveys have expressed a consistent interest in certain specific shareholder report disclosure items.[46] The principal items of interest

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Comment Letter"); Woods Comment Letter; Comment Letter of Amanda Yukle (Sept. 6, 2018) ("Yukle Comment Letter"); Comment Letter of Joanna Baker (Sept. 11, 2018) ("Baker Comment Letter"). However, one investor expressed a preference for text disclosure. *See* Comment Letter of Mark Freeland (Dec. 2, 2018) ("Freeland Comment Letter").

*See also* Financial Literacy Study, *supra* footnote 26 (explaining that, based on public comments and qualitative and quantitative research, investors prefer that disclosures be written in clear, concise, understandable language, using bullet points, tables, charts, and/or graphs); Investor Preferences Report, *supra* footnote 31 (indicating that investors prefer graphics and charts describing an investment over a narrative description).

35 *See* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 10, 75, and 80. For example, one focus group participant in the 2012 research described the annual report disclosure they reviewed as "mind-clogging," while another participant suggested that annual reports "should be written in fifth grade English." Another participant stated, "If they're sending it to us, use a summary and pie charts. (The more sophisticated investors) can go online."

36 *See* Broadridge Comment Letter I (explaining the findings of qualitative feedback from 45 retail investors regarding a typical mutual fund annual report, including that investors found the document to be too long and overwhelming and preferred disclosures that can be read in a

that investors have consistently identified for purposes of monitoring an ongoing fund investment include performance, holdings, and fund expenses.[47] For example, investor testing and surveys have found that approximately 60% to more than 80% of investors believe that fund performance information is important.[48] As for fund holdings information, testing and surveys have found that approximately 38% to 79% of investors view this information as important.[49] Testing and surveys have also found that approximately 34% to 72% of investors believe that fund expense information is important.[50]

Investors have expressed varying levels of interest in reviewing a fund's financial statements and financial highlights. For example, at least one survey has found somewhat high levels of interest in this information from shareholders who currently review fund shareholder reports (*i.e.*, 63% of these investors often review a fund's financial statements), and another

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few minutes and that focus on essential information); Mutual Fund Investors' Views on Shareholder Reports: Reactions to a Summary Shareholder Report Prototype, Investment Company Institute (Oct. 2018) ("ICI Investor Survey"), *available at* https://www.ici.org/pdf/ppr_18_summary_shareholder.pdf; Broadridge Comment Letter II.

37 *See* Broadridge Comment Letter I (stating that 72% of surveyed investors that review mutual fund or ETF disclosures do not find them easy to understand); ICI Investor Survey, *supra* footnote 36 (stating that 67% of surveyed mutual fund investors who recalled receiving fund shareholder reports indicated that the reports are difficult to understand); Broadridge Comment Letter II (providing the results of two surveys in which 41% and 53% of surveyed investors, respectively, found the reports very or somewhat difficult to understand, with older investors and those with lower incomes more likely to find the reports difficult to understand).

38 *See, e.g.*, Delmonte Comment Letter; Comment Letter of Helena Krus (July 29, 2018) ("Krus Comment Letter"); Comment Letter of Logan Fowler (Aug. 13, 2018) ("Fowler Comment Letter"); Wilhelm Comment Letter; Comment Letter of Nina Grano (Aug. 30, 2018) ("Grano Comment Letter"); Comment Letter of Jack Olstrom (Aug. 30, 2018) ("Olstrom Comment Letter"); Dougle Comment Letter; Comment Letter of Frank J. (Aug. 30, 2018); J.L. Comment Letter; Franco Comment Letter; Comment Letter of Irwin Joseph (Nov. 19, 2018) ("Joseph Comment Letter"). Some of these commenters stated that they do not review fund disclosure materials because they are too long or complex, or generally are not well suited to investors' needs. *See, e.g.*, Fowler Comment Letter; Franco Comment Letter; Grano Comment Letter.

survey found that a majority of investors rated financial highlights disclosure as important.[51] Other surveys, as well as comments on the Investor Experience RFC, suggest that the average investor may have less interest in financial statements and financial highlights.[52] As for other types of shareholder report disclosure, investors typically have expressed less interest in these other disclosures.[53]

*Investor Views on the Volume and Frequency of Fund Disclosure*

In addition to concerns about the length of funds' shareholder reports, some investors responding to the Fund Investor Experience RFC expressed concern about the overall volume and frequency of fund disclosures they receive each year. For example, several investors expressed the view that they receive too many fund disclosure materials and that they feel

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39 *See* Broadridge Comment Letter I.

40 *See* ICI Investor Survey, *supra* footnote 36; *see also* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 61, 69 (stating that, of participants in the qualitative component of this testing, 52% read a few key sections of fund annual reports, 14% scan the table of contents and/or the first few pages, and 25% file it or discard it unread; of online survey respondents, 72% read a few key sections, 10% scan the first few pages, and 3% file it or discard it unread).

41 *See* Broadridge Comment Letter II. One of these surveys found that 8% of surveyed investors do not read the reports, 19% read very little of the reports, and 28% read some of the reports. The other survey found that 4% of surveyed investors do not read the reports and 56% read some of the reports.

42 *See id.* (providing the results of a survey in which 21% of investors said that they typically spend 5 minutes or less reviewing shareholder reports and an additional 41% of investors said that they typically spend 6 to 15 minutes reviewing the reports).

43 *See, e.g.,* ICI Investor Survey, *supra* footnote 36 ("The survey results demonstrate that mutual fund investors who find the current reports difficult to understand are less likely to read them.").

44 *See, e.g.*, Broadridge Comment Letter I (discussing the results of a quantitative survey related to fund disclosure in which approximately 39% of investors said they would be more likely to

overwhelmed by the amount of information they receive.[54] Another investor expressed a preference for less frequent disclosure.[55]

However, with respect to shareholder reports in particular, one investor survey found that 86% of investors thought that the current semi-annual frequency at which they receive reports was "about the right frequency," while 11% of investors viewed semi-annual reports as too frequent and 3% expressed a preference for more frequent shareholder reports. In this survey, investors' preferred frequency changed somewhat for a prototype summary shareholder report.[56] If they were to receive a summary shareholder report, 56% of investors preferred semi-annual reports, 27% preferred quarterly reports, 17% preferred annual reports, and 1% did not want to receive the reports.[57]

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look at or review a summary format of a fund's annual and semi-annual reports); ICI Comment Letter I (discussing an investor survey of a summary shareholder report prototype, in which more than 90% of participants indicated that they would be more likely to read the summary prototype than a full-length shareholder report); Broadridge Comment Letter II (providing the results of a survey in which 88% of investors indicated that they were more likely to read a summary shareholder report than a full-length report). Two commenters used the same summary shareholder report prototype, developed by the ICI, in their investor surveys. The prototype was approximately three pages in length and primarily focused on performance, fund expenses, and illustrations of fund holdings. *See* ICI Comment Letter I; Broadridge Comment Letter II.

45 *See, e.g.*, Disclosure: Psychology Changes Everything, George Loewenstein, Cass R. Sunstein, and Russell Goldman, Annual Review of Economics (2014) (providing a comprehensive survey of literature relevant to disclosure regulation and suggesting that "[g]iven the limits of human attention, perhaps the most obvious way to improve the effectiveness of disclosures is to simplify them…[and] to reduce the number of less important disclosures so as to increase the salience of the most important ones"); *see also infra* Section III.C.1 (discussing additional

### 2. Fee and Risk Disclosure Preferences

We understand that investors generally prefer concise, summary disclosure that allows them to quickly understand key information. Similarly, we understand that this general preference extends to investors' preferences about disclosures regarding fund fees and risks.

*Investor Views on Fee and Risk Disclosure*

The majority of investors responding to a question in the Feedback Flier about fee disclosure expressed the view that funds do not clearly disclose their fees and expenses.[58] Many of these investors suggested that funds should simplify their fee and expense disclosure.[59] Several investors recommended reducing the number of line items in the prospectus fee table or providing only one "bottom-line" number showing the fees associated with an investment in the fund.[60] Several investors also expressed an interest in comparing

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academic research on characteristics that may increase the effectiveness of a given disclosure).

46 We are not aware of investor testing or surveys that specifically have explored fund shareholders' level of interest in prospectus-related disclosure they receive through annual prospectus updates or interim prospectus stickers. However, the results of at least one survey suggest that fund shareholders are more likely to use shareholder reports than prospectuses to monitor their fund investments. *See* Investor Preferences Report, *supra* footnote 31, at 15.

47 *See* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 51-52 (stating that about half of online survey respondents considered items regarding performance, holdings, and expenses as "absolutely essential information for any investor"); Broadridge Comment Letter I; ICI Comment Letter I; Investor Preferences Report, *supra* footnote 31; Broadridge Comment Letter II. Some commenters on the Fund Investor Experience RFC also suggested that a summary or streamlined shareholder report should focus on a fund's expenses, performance, and holdings. *See, e.g.*, Comment Letter of The Capital Group Companies (Oct. 30, 2018) ("Capital Group Comment Letter"); Henry Comment Letter. Similarly, we understand that these content topics are those that experts recommend that investors consider in understanding a fund investment. *See, e.g.*, IAC Disclosure Effectiveness Recommendation, *supra* footnote 26, at n.4 and accompanying text ("To select a mutual fund, for example, experts are nearly unanimous in recommending that investors consider the fund's investment objectives and strategies, risks, fees and expenses, past performance, including the volatility of that performance, the reputation of the fund manager, tax implications of an

fees and expenses across multiple funds to help inform their investment decisions.[61] Other commenters who responded more generally to the Fund Investor Experience RFC also expressed concern that fund fees are hard to understand, and that certain terminology Form N-1A uses (*e.g.*, use of terms like "12b-1 fees" and "front-end loads") is similarly difficult to understand.[62] Some commenters suggested that funds should disclose fees in terms of dollars rather than percentages to make the disclosure more understandable to investors.[63]

*Investor Views on Principal Risk Disclosure*

Many investors responding to the Fund Investor Experience RFC also suggested that disclosure about a fund's risks is too long.[64] Some investors suggested that funds should order risks by importance and provide the most important risks first.[65] Other investors suggested that more focused risk disclosure would be helpful.[66] Consistent with these investor

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investment in the fund, and information about such account features as investment minimums.").

48 *See* Broadridge Comment Letter I (finding that, of the 50% of surveyed investors that review mutual fund or ETF annual and semi-annual reports "always" or "most of the time," 75% of those investors often look at or review fund performance information); 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 49 (stating that 61% of participants in the qualitative component of this testing ranked the discussion of fund performance in the top three most important shareholder report items); ICI Comment Letter I (finding that approximately 83% of surveyed investors said that performance highlights information is very important or somewhat important); Investor Preferences Report, *supra* footnote 31 (stating that, after purchase, 76% of investors review performance information); Broadridge Comment Letter II (providing the results of an investor survey in which 89% of investors rated the performance section of the annual report as important and 63% rated the portfolio commentary (or performance highlights) section as important).

49 *See* Broadridge Comment Letter I (stating that, of the 50% of surveyed investors that review mutual fund or ETF annual and semi-annual reports "always" or "most of the time," 67% of those investors often look at or review fund portfolio holdings information); 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 49 (finding that 38% of

preferences, Commission staff has encouraged funds to take steps to improve their principal risk disclosure including by, for example, ordering risks by importance, better tailoring their risk disclosure, and concisely summarizing principal risks in the summary prospectus.[67]

### 3. Disclosure Delivery Preferences

Based on information from the Fund Investor Experience RFC and investor testing and surveys, investors have shown a general familiarity with using the internet to find information about a fund and have expressed a range of preferences regarding how they receive fund disclosure (*i.e.*, in paper or electronically). In the Fund Investor Experience RFC, the Commission sought information on investors' use of the internet to communicate about and find information on fund investments, as well as their preferences on the form and manner of disclosure delivery.[68] In response, many investors indicated that they go to fund or

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participants in the qualitative component of this testing ranked the graphical representation of holdings in the top three most important shareholder report items); *see also* ICI Comment Letter I (stating that approximately 79% of surveyed investors said that graphical representation of holdings information is very important or somewhat important); Investor Preferences Report, *supra* footnote 31 (stating that, after purchase, 41% of investors review portfolio holdings); Broadridge Comment Letter II (discussing a survey in which 63% of investors rated disclosure about the characteristics of a fund—including top holdings, asset allocations, and industry allocations—as important for annual reports and 64% of investors rated this disclosure as important for semi-annual reports).

50 *See* Broadridge Comment Letter I (stating that, of the 50% of surveyed investors that review mutual fund or ETF annual and semi-annual reports "always" or "most of the time," 61% of those investors often look at or review fund expense information); 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 49 (finding that 34% of participants in the qualitative component of this testing ranked the expense example in the top three most important shareholder report items); Broadridge Comment Letter II (discussing a survey in which 69% of investors rated expense disclosure as important for annual reports and 66% of investors rated it as important for semi-annual reports); *see also* ICI Comment Letter I (stating that approximately 72% of surveyed investors said that the fund expense example is very important or somewhat important); Investor Preferences Report, *supra* footnote 31 (stating that, after purchase, 55% of investors review fund fees and expenses).

intermediary websites to get information about a fund investment.[69] Many investors also expressed a preference for receiving fund disclosure electronically, either through email, mobile application, or website availability.[70] Several other investors preferred to access most fund information electronically, with the exception of certain information they preferred to receive on paper.[71] Other investors stated that they generally prefer to receive fund information in paper format.[72] A few investors specifically suggested that paper should be the default delivery mechanism for a "summary" shareholder report.[73] In addition, investor testing and surveys suggest that many investors would prefer enhanced availability of fund information on the internet in a layered disclosure framework, although some investors prefer to receive fund disclosures in paper format.[74]

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51 *See* Broadridge Comment Letter I; Broadridge Comment Letter II (stating that 55% of investors rated the financial highlights as important annual report disclosure and 53% of investors rated this disclosure as important for semi-annual reports, but 47% of surveyed investors viewed the statement of financial condition and operations as important disclosure for annual or semi-annual reports).

52 *See* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 49 and 52 (indicating that approximately 38% to 41% of surveyed investors found the financial highlights to be important, while approximately 24% to 33% of surveyed investors believed that financial statements were important); *see also* ICI Comment Letter I (determining not to include financial statements and most financial highlights data points in a summary shareholder report mockup and instead concluding that "they were of a more technical nature that a typical retail investor would not read or understand," although such information would be available online under the commenter's proposed approach); Rojas Comment Letter ("What am I supposed to do with a very long list of holdings and financial statements?"); Balke Comment Letter ("Financial Statements are of little value."); Fowler Comment Letter ("What am I supposed to do with fund financial statements?").

### C. Developments Affecting Fund Disclosure and Marketing Practices

In addition to evidence about investor preferences regarding fund disclosure, our proposal is informed by developments affecting fund disclosure and marketing practices. With respect to our proposed amendments to promote more concise, layered disclosure, these developments include advances in technology and the Commission's experience with summary prospectus disclosure, as well as the growing length and complexity of funds' shareholder reports since the mid-1990s. Additionally, our proposed amendments to investment company advertising rules are informed by our observations about recent

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[53] *See* Broadridge Comment Letter I (finding that surveyed investors tended to have less interest in remuneration paid to directors, officers, and others, as well as information about directors and officers); 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 52 (stating that surveyed investors generally had less interest in information about changes in, and disagreements with accountants; results of any shareholder vote; discussion of the reasons the board approved an advisory contract; statements about where to find certain additional fund information; and information about directors and officers); Broadridge Comment Letter II (providing the results of a survey in which 26% of investors rated disclosure about the fund's directors and officers as important, and 25% of investors rated disclosure about the board's approval of the investment advisory contract as important).

[54] *See, e.g.*, Delmonte Comment Letter ("There is too much information provided to me. I buy a mutual fund because I want convenience and to more efficiently spend my time. Stop giving me hours['] worth of reading I do not understand."); Solo Comment Letter (stating that there are too many fund disclosure materials, they are too long, and they do not distill the right information); Rojas Comment Letter.

[55] Comment Letter of Anonymous (Aug. 30, 2018) ("Anonymous Comment Letter") ("I invest for the long term. I do not need constant updates.")

[56] *See supra* footnote 44 (discussing the prototype summary shareholder report developed by the ICI).

[57] *See* Broadridge Comment Letter II.

[58] Approximately 33 investors responded to the Feedback Flier question asking, "Do you think funds clearly disclose their fees and expenses?" Of these 33 investors, 21 investors replied "no" and 12 investors replied "yes."

investment company marketing practices in light of increased industry focus on fees, and competition based on fees.

*Advances in Technology*

For more than 20 years, the Commission has recognized the internet's important role in providing disclosure materials and other information to investors and maximizing investor access to information.[75] During this time, technology has continued to evolve, and investors' access to the internet has increased. For example, as of 2019, approximately 94% of households owning mutual funds had internet access, while only 68% of these households had internet access in 2000.[76] Moreover, advances in technology, including increasing use of mobile devices to access information, are expanding the avenues that funds and intermediaries can use to communicate with investors and make it easier to provide interactive or

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59 *See, e.g.*, Krus Comment Letter; Stiles Comment Letter; Anonymous Comment Letter; Hague Comment Letter; J.L. Comment Letter; Woods Comment Letter; Comment Letter of Jake Hamm (Sept. 3, 2018); Yukle Comment Letter.

60 *See, e.g.*, Grano Comment Letter; Anonymous Comment Letter; Yukle Comment Letter; J.L. Comment Letter.

61 *See, e.g.*, Palmer Comment Letter; Balke Comment Letter; Karlidag Comment Letter; Kirchoff Comment Letter; Solo Comment Letter; Krus Comment Letter.

62 *See, e.g.*, Comment Letter of AARP (Oct. 31, 2018) ("AARP Comment Letter"); Comment Letter of Independent Directors Council (Oct. 30, 2018); Comment Letter of Carla Ruiz (Aug. 17, 2018) ("Ruiz Comment Letter"). A recent study of mutual fund financial literacy also found that many survey participants were unable to correctly answer certain true-or-false questions about general aspects of funds' fee structures, as well as other characteristics of funds. *See* Brian Scholl and Angela Fontes, Adding Depth to Financial Literacy: What Does the Public Know About Mutual Funds? Towards a New Index of Investor Knowledge, SEC Office of the Investor Advocate (July 18, 2019).

63 *See, e.g.*, AARP Comment Letter; Comment Letter of A. Miller (July 21, 2018); *see also infra* footnote 573 (citing other evidence that dollar-based disclosure may be easier for some investors to understand).

64 *See, e.g.*, Krus Comment Letter; Solo Comment Letter; Fowler Comment Letter; Stiles

customizable information.[77] We understand that many funds and financial intermediaries are using technology in an effort to communicate more effectively with fund investors and to respond to investor preferences, and continue to explore additional ways to use technology to better communicate with investors.[78] The Commission, while considering the needs and preferences of investors, also has recognized that modernizing the manner in which funds and others make information available to investors allows them to leverage the benefits of technology and reduce fund costs.[79]

*Experience with Layered Disclosure, and the Growing Length and Complexity of Shareholder Reports over Time*

The Commission also has taken multiple steps with respect to fund prospectuses to both recognize investors' preferences for concise and engaging disclosure of key information and ensure that additional information that may be of interest to some investors is available

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Comment Letter; Comment Letter of Hector Ewing (Aug. 30, 2018) ("Ewing Comment Letter"); J.L. Comment Letter; Woods Comment Letter; Baker Comment Letter; Olstrom Comment Letter.

65 *See, e.g.*, Stiles Comment Letter; Dougle Comment Letter; J.L. Comment Letter; Ruiz Comment Letter; *see also* Frank W. Comment Letter (expressing interest in disclosure that better explains the level of a given risk).

66 *See, e.g.*, Freeland Comment Letter (stating that funds should only disclose risks based on how the fund normally and actually invests).

67 *See* Division of Investment Management, Accounting and Disclosure Information 2019-08, Improving Principal Risks Disclosure, *available at* https://www.sec.gov/investment/accounting-and-disclosure-information/principal-risks/adi-2019-08-improving-principal-risks-disclosure ("ADI 2019-08").

68 *See* Fund Investor Experience RFC, *supra* footnote 8, at Section II.B.2.

69 *See, e.g.*, Karlidag Comment Letter; Thomas Comment Letter; Jallah Comment Letter; Delmonte Comment Letter; Solo Comment Letter; Comment Letter of C. Scott (July 26, 2018) ("Scott Comment Letter"); Comment Letter of James McRitchie (Sept. 4, 2018) ("McRitchie Comment Letter").

70 *See, e.g.*, Rojas Comment Letter; Jallah Comment Letter; Freedman Comment Letter; Nevin Comment Letter; Kirchoff Comment Letter; Arnold Comment Letter; Scott Comment Letter;

through a layered approach to disclosure.[80] We believe these initiatives have benefitted investors. For example, research shows that the introduction of a more concise summary prospectus may allow investors to spend less time and effort to arrive at the same portfolio decision they would have made after reading the longer statutory prospectus.[81] Approximately 93% of funds use summary prospectuses.[82]

On the other hand, the Commission has not taken comprehensive steps to create a layered disclosure framework for funds' shareholder reports.[83] Funds' shareholder reports generally have become longer and more complex over the years. For example, until 1994, funds were only required to provide certain financial information in their shareholder reports, generally consistent with the types of information that section 30(e) of the Investment Company Act identifies.[84] During this time, however, many funds provided other information

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Krus Comment Letter. Some funds responding to the Fund Investor Experience RFC also suggested that website disclosure is consistent with many investors' preferences. *See, e.g.,* Capital Group Comment Letter; Comment Letter of Fidelity Investments (Oct. 31, 2018) ("Fidelity Comment Letter"); Comment Letter of Vanguard (Oct. 31, 2018) ("Vanguard Comment Letter").

71 Many of these investors preferred to receive statements in paper. *See* Comment Letter of Arthur Blanchard (Nov. 19, 2018) ("Blanchard Comment Letter"); Ewing Comment Letter; Joseph Comment Letter; Krus Comment Letter. Other investors appeared to have different preferences. *See* Comment Letter of Mark S. (Aug. 30, 2018) (preferring to receive "important" information by mail); Olstrom Comment Letter (preferring to receive tax forms in paper); Comment Letter of Carl Waranowksi (Nov. 25, 2018) ("Waranowski Comment Letter") (preferring to receive "important" information in paper).

72 *See, e.g.*, Grano Comment Letter; Comment Letter of Jane D. Nelson (Aug. 30, 2018); Comment Letter of Duane Lee (Dec. 3, 2018) ("Lee Comment Letter"); Comment Letter of Mark Moran (Dec. 4, 2018); Morton Comment Letter; Comment Letter of Brad Shockey (Oct. 9, 2018).

73 *See* Henry Comment Letter; Weaver Comment Letter.

in these reports voluntarily, including information about general economic conditions, the fund's performance, and services provided to shareholders.[85] Over the past two decades, the amount of information that funds are required to include in shareholder reports (or that funds otherwise voluntarily include in these reports) has increased substantially.[86]

*Developments Affecting Investment Company Advertisements*

In recent years, investment companies increasingly have been marketing themselves on the basis of costs in an effort to attract investors. For instance, we have observed some funds calling themselves "no-expense" or "zero-expense" funds, or emphasizing their low expense ratios, despite the fact that investors may experience other investment costs.[87] These

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[74] For example, the 2012 investor testing suggested that an investor looking for a fund's annual report is most likely to seek it out on the fund's website, rather than request it by mail or phone or by retrieving it from the Commission's EDGAR system. *See* 2012 Report on Investor Testing of Fund Annual Reports *supra* footnote 26, at 72. Many investors indicated that they would prefer that fund information be made available in both electronic and paper versions, with a plurality of respondents preferring electronic transmission by email with the option to easily request a paper copy of a particular report, though a significant minority indicated that they would still prefer to receive a paper copy through the mail. *Id.* at 183. *See also* Broadridge Comment Letter I (providing data on surveyed investors' current methods for receiving mutual fund and ETF disclosure and preferred delivery methods that suggest that preferences are mixed, with 47% of investors primarily receiving fund disclosure by mail and 44% primarily receiving fund disclosure by email); CFA Comment Letter (stating that the following percent of respondents to a 2006 survey expressed interest in using the internet to: (1) obtain general information about funds (59%); (2) research individual funds (58%); (3) receive periodic reports and disclosure documents (49%); (4) use a calculator to compare costs

other investment costs include, for example, securities lending costs or wrap program fees that may provide revenue to the fund's adviser, its affiliates, or others and that may effectively allow the fund to reduce its reported expense ratio because the prospectus fee table is not required to reflect the relevant category of costs. Investment company advertising rules currently place limits on how a fund may present its performance to promote comparability and prevent potentially misleading advertisements.[88] These rules, however, generally do not prescribe the presentations of fees and expenses in advertisements to address similar concerns about comparability or potentially misleading information.[89]

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(47%); (5) communicate with a financial services professional (39%); or (6) purchase mutual funds (26%)); Broadridge Comment Letter II (providing the results of a survey in which 34% of investors said they were more likely to review a summary shareholder report if received by mail and 50% of investors said they were more likely to review such a report if received by email). *See also infra* footnote 76 (discussing increasing internet access over the years).

75 *See, e.g.*, *supra* footnote 21. For a more-detailed discussion of other Commission releases that have involved using the internet to provide or improve access to information, *see* Rule 30e-3 Adopting Release, *supra* footnote 14, at n.18; *see also* Exchange-Traded Funds, Investment Company Act Release No. 33646 (Sept. 25, 2019) [84 FR 57162 (Oct. 24, 2019)] ("ETF Adopting Release"), at n.229 (encouraging ETFs to consider whether there are technological means to make their disclosure more accessible).

76 *See* Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, ICI Research

Perspectives (Oct. 2019) ("Study on Mutual Fund Investors' Use of the Internet"), *available at* https://www.ici.org/pdf/per25-08.pdf; *see also* CFA Comment Letter (providing a 2014 report discussing the growth of internet usage).

77 *See, e.g.*, Vanguard Comment Letter; ICI Comment Letter I; CFA Comment Letter.

78 *See, e.g.*, Fidelity Comment Letter; Comment Letter of Putnam Investments (on behalf of the Mutual Fund Broker-Dealer Working Group) (Nov. 30, 2018) ("Putnam Comment Letter"); ICI Comment Letter I; Capital Group Comment Letter (stating that a growing percentage of fund shareholders and their advisers use the fund group's website to obtain information about its funds, its organization, and other investment insights); CFA Comment Letter (providing a 2014 study entitled "Can the Internet Transform Disclosures for the Better?" that, among other things, reviewed the content and design of fund and intermediary websites). For example, we understand that several funds and financial intermediaries provide interactive features on their websites such as fund screener tools, expense calculators, and retirement planning tools and use mobile applications to engage with fund shareholders.

79 *See* Rule 30e-3 Adopting Release, *supra* footnote 14; Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27.

80 *See* New Disclosure Option for Open-End Management Investment Companies, Investment Company Act Release No. 23065 (Mar. 13, 1998) [63 FR 13968 (Mar. 23, 1998); 2009 Summary Prospectus Adopting Release, *supra* footnote 10; Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27.

81 *See* John Beshears, James Choi, David Laibson, and Brigitte Madrian, How Does Simplified Disclosure Affect Individuals' Mutual Fund Choices?, Explorations in the Economics of Aging, 75, 76 (David A. Wise ed., 2011), *available at* https://scholar.harvard.edu/laibson/publications/how-does-simplified-disclosure-affect-individuals-mutual-fund-choices.

82 *See supra* footnote 12.

83 The Commission has, however, adopted rules that permit streamlined disclosure of portfolio holdings in funds' shareholder reports. In 2004, the Commission adopted an approach that gives funds the option to include summary portfolio schedules in their shareholder reports, provided the complete portfolio schedule is filed on Form N-CSR and available, free of charge, to investors. *See* Shareholder Reports and Quarterly Portfolio Disclosure of Registered Management Investment Companies, Investment Company Act Release No. 26372 (Feb. 27, 2004) [69 FR 11244 (Mar. 9, 2004)], at Section II.B and paragraph accompanying n.111 ("February 2004 Shareholder Report Adopting Release") (noting that these amendments were "designed to streamline shareholder reports and help investors to focus on a fund's principal holdings, and thereby better evaluate the fund's risk profile and investment strategy," and would reduce printing and mailing costs for most funds).

84 *See, e.g.*, Registration Form Used by Open-End Management Investment Companies, Investment Company Act Release No. 13436 (Aug. 12, 1983) [48 FR 37928, 37951 (Aug. 22, 1983)] (adopting Form N-1A, which included annual and semi-annual report requirements in what was then Item 23 of the form). In 1994, the Commission adopted amendments requiring funds to disclose information in their shareholder reports about the results of shareholder votes and any changes in and disagreements with accountants. *See, e.g.,* Amendments to Proxy

## II. DISCUSSION

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Rules for Registered Investment Companies, Investment Company Act Release No. 20614 (Oct. 13, 1994) [59 FR 52689 (Oct. 19, 1994)]. In 1996, Congress added section 30(f) to the Investment Company Act, which allows the Commission to require that funds' semi-annual reports include such other information as the Commission deems necessary or appropriate in the public interest or for the protection of investors. National Securities Markets Improvement Act of 1996, Pub. L. 104-290, Section 207, 110 Stat. 3416, 3430 (Oct. 11, 1996).

85 *See, e.g.*, Standardization of Financial Statement Requirements in Management Investment Company Registration Statements and Reports to Shareholders, Investment Company Act Release No. 11490 (Dec. 15, 1980) [45 FR 83517 (Dec. 19, 1980)], at nn.3-4 and accompanying text.

86 *See, e.g.*, Role of Independent Directors of Investment Companies, Investment Company Act Release No. 24816 (Jan. 2, 2001) [66 FR 3734 (Jan. 16, 2001)] ("Independent Directors Release") (requiring shareholder report disclosure regarding a fund's board of directors); Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies, Investment Company Act Release No. 25922 (Jan. 31, 2003) [68 FR 6564 (Feb. 7, 2003)] (requiring funds to disclose in their annual and semi-annual reports to shareholders the methods by which shareholders may obtain information about proxy voting); February 2004 Shareholder Report Adopting Release, *supra* footnote 83 (requiring funds to add shareholder report disclosure regarding fund expenses borne by shareholders, a tabular or graphic presentation of a fund's portfolio holdings by identifiable categories, and management's discussion of fund performance, while allowing funds to include a summary portfolio schedule in these reports); Disclosure Regarding Approval of Investment Advisory Contracts by Directors of Investment Companies, Investment Company Act Release No. 26486 (June 23, 2004) [69 FR 39798 (June 30, 2004)] (requiring shareholder report disclosure about the basis for the board's approval of advisory contracts during the most recent fiscal half-year).

87 A fund's expense ratio is the figure in its prospectus fee table that represents the fund's total annual operating expenses, expressed as a percent of the fund's average net assets. *See also infra* Section II.H.1.c (discussing costs that the expense ratio does not reflect).

88 *See, e.g.*, Amendments to Investment Company Advertising Rules, Investment Company Act Release No. 26195 (Sept. 29, 2003) [68 FR 57760 (Oct. 6, 2003)]; Advertising by Investment Companies, Investment Company Act Release No. 16245 (Feb. 2, 1988) [53 FR 3868 (Feb. 10, 1988)] ("1988 Advertising Rules Release"); Mutual Fund Sales Literature Interpretive Rule, Investment Company Act Release No. 10915 (Oct. 26, 1979) [44 FR 64070 (Nov. 6, 1979)].

89 While Commission rules require a fund to disclose maximum sales loads in some advertisements, and FINRA rules also limit how a fund advertisement may describe investment costs in some respects, these limitations currently apply only to a subset of fund advertisements. *See infra* Section II.H.2.

### D. Overview of Proposed New Disclosure Framework

#### 1. Executive Summary

The amendments we are proposing would modify the disclosure framework for funds registered on Form N-1A to create a new layered disclosure approach designed to highlight key information for retail investors. The new disclosure approach is designed to tailor the information that investors receive to help investors better assess and monitor their fund investments and make informed investment decisions. We recognize that investors have different levels of knowledge and experience, and we seek to promote disclosure that is inviting and usable to a broad spectrum of investors.

In order to help achieve these goals, the proposal includes the following principal elements:

- *Shareholder Reports Tailored to the Needs of Retail Shareholders*: Under the proposal, fund investors would continue to receive fund prospectuses in connection with their initial investment in a fund, as they do today. Thereafter, a shareholder would receive concise and visually engaging annual and semi-annual reports designed to highlight information that we believe is particularly important for retail shareholders to assess and monitor their fund investments on an ongoing basis. This information would include—among other things—fund expenses, performance, and portfolio holdings. We also propose to provide funds the flexibility to make electronic versions of their shareholder reports more user-friendly and interactive.
- *Availability of Additional Information on Form N-CSR and Online:* Information currently included in annual and semi-annual reports that may be less relevant to retail fund shareholders, and of more interest to financial professionals and other

investors who desire more in-depth information, would be made available online and delivered free of charge in paper or electronically upon request by the fund (or intermediary through which shares of the fund may be purchased or sold). This information also would be filed on a semi-annual basis with the Commission on Form N-CSR. This information would include, for example, the schedule of investments and other financial statement elements. Shareholder reports would contain cover page legends directing investors to websites containing this information.

- *Amendments to Scope of Rule 30e-3 to Exclude Funds Registered on Form N-1A*: The proposal contemplates that a fund's shareholder reports, as modified pursuant to the proposed rule and form amendments, would serve as the central source of fund disclosure for existing shareholders. To ensure that all fund investors would experience the anticipated benefits of the proposed new tailored disclosure framework, we are proposing to amend the scope of rule 30e-3 to exclude open-end funds.[90] Beginning as early as January 1, 2021, funds may begin relying on rule 30e-3, which generally permits funds to satisfy shareholder report transmission requirements by making these reports and other materials available online and providing a notice of the reports' online availability, instead of directly

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[90] We discuss the operational aspects of this proposed amendment to the scope of rule 30e-3, including compliance date issues, in Section II.G *infra.*

providing the reports to shareholders.[91] The new proposed disclosure framework considers feedback that commenters provided in response to the Fund Investor Experience RFC and reflects the Commission's continuing efforts to search for better ways of providing investors with the disclosure that they need. In light of these and other considerations, we preliminarily believe that the proposed disclosure approach represents a more-effective means of improving investors' ability to access and use fund information, and of reducing expenses associated with printing and mailing, than continuing to permit open-end funds to rely on rule 30e-3.

- *Tailoring Required Disclosures to Needs of New versus Ongoing Fund Investors:* It is currently common for fund shareholders to receive an updated annual prospectus each year. We are proposing new rule 498B, which would provide an alternative approach that uses layered disclosure, discussed in more detail below, to keep investors informed about their fund investment and updates to their fund that occur year over year. Under this proposed rule, new investors would receive a fund prospectus in connection with their initial investment in a fund, as they currently do, but funds would not deliver annual prospectus updates to investors thereafter. The proposed layered disclosure framework would instead rely on the shareholder report (including a summary in the annual report of material changes

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91 Notwithstanding rule 30e-3, investors who have elected electronic delivery of fund documents or have opted in to paper delivery of shareholder reports receive delivery of shareholder reports pursuant to their elections. *See infra* footnote 532 and accompanying text.

that occurred over the prior year), as well as timely notifications to shareholders regarding material fund changes as they occur, to keep investors informed about their fund investments and enable them to make informed decisions about whether to buy, sell, or hold fund shares. Current versions of the fund's prospectus would remain available online and would be delivered upon request in a manner consistent with the shareholder's delivery preference.

- *Improvements to Prospectus Disclosure of Fund Fees and Risks; Request for Comment on Improving Fund Fee and Expense Disclosures:* We recognize that fund fees and risks are two areas that investors find particularly important to assessing a prospective fund investment, and two disclosure areas that can be complex and confusing. We are proposing amendments to funds' prospectus disclosure that are designed to help investors more readily understand a fund's fees and risks, and that use layered disclosure principles that tailor disclosures of these topics to different types of investors' informational needs. We are also proposing amendments that would refine the scope of funds that are required to disclose the fees and expenses associated with investments in other funds as a component of a fund's bottom line annual expenses in the prospectus fee table. Furthermore, we are requesting comment on how we could improve the ways in which funds disclose their fees and expenses, in order to represent the full costs associated with a fund investment more accurately and to help investors better understand their investment costs.
- *Fee and Expense Information in Fund Advertisements:* Finally, we are proposing amendments that are designed to respond to developments that we have observed in fund advertising. The proposed amendments would 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. The proposed amendments also address representations of fund fees and expenses that could be materially misleading. The proposed advertising rule amendments would affect all registered investment company and BDC advertisements and would not be limited to open-end fund advertisements.

### 2. Considerations and Goals

*Concerns and Considerations about Current Disclosure Framework*

The proposed new disclosure framework—particularly, the new tailored approach to disclosure with respect to fund shareholder reports and prospectuses—is designed to address the concern that shareholder report and prospectus disclosures may appear redundant or inconsistent to shareholders, as well as our belief that prospectus disclosure in particular may often be less relevant to the informational needs of a shareholder who is simply monitoring his or her fund investment. As a preliminary matter, fund prospectuses and shareholder reports have historically served different purposes. The prospectus acts as the principal selling document for investors to inform investment decisions and facilitate fund comparisons. The shareholder report, on the other hand, provides information to a fund's current shareholders about the fund's operations and performance during the past fiscal period. Moreover, the shareholder report and prospectus present certain of the same types of information (*e.g.*, fund performance and expenses) differently in light of their intended audiences.[92]

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[92] For example, a shareholder report currently includes backward-looking information about a fund's actual ongoing expenses over the most recent fiscal half-year, while a prospectus includes forward-looking information about fees for new investments in a fund (*i.e.*, sales

As a result, there are ways in which the current disclosure framework may not tailor fund disclosure contents to the needs of different types of investors. Much of the information in a fund's prospectus, including disclosure about the fund's principal investment strategy and principal risks, often remains the same from year to year. Receiving continuing disclosure of this unchanging information therefore might not be useful to existing fund investors, although investors typically receive annual prospectus updates that include this content. On the other hand, to the extent a fund has a material change (*e.g.*, it materially changes its principal investment strategy and has different principal risks, or changes its fees), this information may be more salient to a shareholder's monitoring of his or her investments. Under the current disclosure framework, these changes might not be highlighted to shareholders.[93] The fact that current fund disclosures might not meet investors' informational needs may contribute to investor disinterest or confusion. The potential for disinterest or confusion may be particularly pronounced when a shareholder receives prospectus and shareholder report disclosure close in time, which often occurs in the case of the annual report and the annual prospectus update.[94]

Although prospectus disclosure may be less well-suited for analyzing and monitoring an ongoing fund investment, some fund shareholders may be more likely to review a fund's

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charges) and the fund's projected future expenses. As another example, a shareholder report typically provides performance and other information as of the end of the fund's most recent fiscal year, while a prospectus presents fund performance as of the end of a calendar year to help prospective investors compare potential fund investments.

93 For example, to the extent a fund has a known or expected increase in its fees and expenses for the current year, a fund shareholder would receive information about the new fee and expense levels in the annual prospectus update. That is, the prospectus fee table in year 1 would present fees as x%, and in year 2 would present fees as y%. But the prospectus would not necessarily highlight or explain the change from year to year, nor would the fund's shareholder reports.

94 *See supra* footnote 20 and accompanying text.

prospectus instead of its shareholder reports based simply on length. Over the past two decades, the amount of information that funds are required to include in shareholder reports (or that funds otherwise voluntarily include in these reports) has increased substantially.[95] This amount of disclosure may not correspond with investors' expressed preferences for concise, layered disclosure that highlights key information. The substantial length of shareholder reports also may make it more difficult for investors to understand and effectively use the information.[96]

In addition, we have considered the extent to which modifying the disclosure framework for funds, for example by requiring funds to transmit the tailored shareholder reports that this proposal envisions, could result in cost savings.[97] Shareholders generally bear these fund expenses, and therefore may be bearing costs for information they prefer not to be delivered to them. For example, retail shareholders may prefer *not* to have delivered to them information that is more technical in nature and may be more relevant for financial professionals and other investors who desire more in-depth information (such as complete fund financial statements, as opposed to receiving summary disclosure about fund holdings and expenses).

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95 *See supra* footnote 19 and accompanying text (noting that the average page length of annual reports is approximately 134 pages).

96 *See supra* Section I.B.

97 *See infra* Section III.C.2.d (as discussed in this section, we anticipate that the proposed new disclosure framework would produce cost savings, due to reduced printing and mailing costs and processing fees, even after taking into account the effects of our proposed exclusion of open-end funds from the scope of rule 30e-3).

This proposal reevaluates funds' disclosure framework in light of all of these considerations. The proposed new approach is based on the goal of promoting more-digestible, tailored disclosure that fund shareholders can use to monitor their ongoing fund investments efficiently and meaningfully, with layered information that may be less relevant to retail shareholders available online and upon request. Likewise, the proposed approach is designed to help a fund shareholder to use shareholder reports to compare funds he or she already owns and assess how the shareholder's mix of funds fits into his or her overall investment portfolio.

The proposed approach to funds' overarching disclosure framework would be complemented by more-targeted proposed improvements to fund prospectus fee and risk disclosures, as well as proposed amendments to investment company advertising rules. Collectively, the proposed amendments are designed to facilitate investors' ability to make informed investment decisions and monitor their investments thereafter.

*Tailoring Fund Disclosure Using Layered Disclosure Principles*

The layered disclosure approach underlying the proposed new disclosure framework would build on the Commission's experience in conforming required fund disclosures to the informational needs of different types of investors. In recent years, the Commission has adopted rules that rely on layered disclosure principles to tailor fund disclosures to the particular needs of retail investors, as well as financial professionals and

other investors who desire more in-depth information.[98] Similarly, in past years the Commission has taken into account the relative informational needs of new investors and ongoing shareholders in tailoring the requirements for investment company disclosures.[99]

The proposed new disclosure framework also would reflect various stakeholders' suggestions and stated preferences for fund disclosure that more directly highlights key fund information and is tailored to investors' needs. For example, the Commission's Investor Advisory Committee has recommended that the Commission develop an approach to funds' shareholder reports that would rely on summary disclosure and layered disclosure principles.[100] Similarly, the proposed new disclosure framework would reflect investor preferences as we understand them based on investor testing, surveys, and other

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98 *See* 2009 Summary Prospectus Adopting Release, *supra* footnote 10; Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27; *see also* discussion at *supra* footnotes 5-6 and accompanying text.

99 *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27. In particular, the Commission received positive feedback on its proposal to provide an "initial summary prospectus" to new investors in variable annuity and variable life insurance contracts, and an "updating summary prospectus" to investors each year after their initial investment in a variable contract. *Id.* at text accompanying nn.33 and 335. In part on the basis of that positive feedback, the Commission adopted that proposal.

100 *See* Recommendation of the Investor Advisory Committee Regarding Promotion of Electronic Delivery and Development of a Summary Disclosure Document for Delivery of Investment Company Shareholder Reports (Dec. 7, 2017), *available at* https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-promotion-of-electronic-delivery-and-development.pdf. The recommendation provided, among other things, that the Commission explore: (1) methods to encourage a transition to electronic delivery that respect investor preferences and that increase the likelihood that investors will see and read important disclosure documents; and (2) development of a summary, layered disclosure document for shareholder reports that incorporates key information from the report along with prominent notice regarding how to obtain a copy of the full report, and would be designed to be delivered either by mail or by email (depending on the investors' delivery

information-gathering, which have consistently indicated that retail fund investors prefer concise disclosure that focuses on the most important fund information.[101]

*Leveraging Technology to Modernize Funds' Disclosure Requirements*

In addition, the proposed new disclosure framework would leverage technology to modernize funds' disclosure requirements.[102] Our proposal would use the internet as a medium to provide information to investors and distinguish between information that investors receive directly (either in paper or electronically, depending on investors' preferences) and information that is available to investors online. The proposal also takes steps to encourage funds to use online tools to enhance and personalize the information that they provide to shareholders, as constantly developing online technology presents unique potential to enrich investors' experience in understanding and engaging with their fund investments.[103]

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preferences). This proposal also takes into account the Investor Advisory Committee's recent recommendation on improving the effectiveness of investor disclosures (including in the context of fund disclosures). *See* IAC Disclosure Effectiveness Recommendation, *supra* footnote 26.

101 *See* discussion at *supra* Section I.B.1.

102 Individuals' access to and use of the internet has increased significantly in the last few decades, including among demographic groups that have previously been less apt to use the internet. *See* Pew Research Center, Internet/Broadband Fact Sheet (last updated June 12, 2019), *available at* https://www.pewresearch.org/internet/fact-sheet/internet-broadband. We understand these trends extend to individuals' use of online resources to manage their finances and investments. *See, e.g.,* Can the Internet Transform Disclosures for the Better? Consumer Federation of America (Jan. 2014), *available at* https://consumerfed.org/pdfs/can-the-internet-transform-disclosures-for-the-better.pdf.

103 *See infra* Section II.B.4.

*Shareholder Report as the Central Source of Fund Disclosure for Existing Shareholders*

In proposing the new disclosure framework, which employs the shareholder report as the central source of fund disclosure for existing shareholders, we considered the extent to which permitting open-end funds to continue relying on rule 30e-3 to transmit shareholder reports would affect our policy goals. Since adopting rule 30e-3, we have continued to analyze and hear from industry participants regarding further improvements to our disclosure regime. As a result, we now believe that a tailored shareholder report that highlights key information would provide better information for investors than the notices required under rule 30e-3. Furthermore, if a fund were permitted to rely upon both rule 30e-3 and proposed rule 498B, shareholders in such a fund would no longer directly receive shareholder reports *or* annual prospectus updates, and thus would not be sent any periodic regulatory disclosure documents.[104] We believe the proposed new disclosure framework would also largely preserve the expected cost savings to funds and investors that funds would experience by choosing to rely on rule 30e-3.[105]

**E. Annual Shareholder Report**

We are proposing to add new Item 27A to Form N-1A to specify the design and content of funds' annual and semi-annual reports. We also are proposing to remove the provisions in current Item 27 of Form N-1A that relate to annual and semi-annual reports.

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104 *See infra* Section III.C.2.d.

105 *See id.*

The table below summarizes the proposed content that funds would include in their annual reports or Form N-CSR reports in comparison to current shareholder report disclosure requirements.[106] While the proposed content requirements for shareholder reports that are transmitted in paper would generally be the same as the requirements for reports that are transmitted electronically (and that appear online or are accessible through mobile electronic devices), we are proposing instructions that address electronic presentation and are designed to provide flexibility to enhance the usability of reports that appear online or on mobile devices.[107]

***TABLE 1: ANNUAL REPORT CONTENTS***

| **Current Annual Shareholder Report Disclosure** *(current Form provision)* | **Description of Proposed Amendments** | **Proposed Rule and Form Provisions** | **Discussed Below In** |
|---|---|---|---|
| -- | Add new identifying information to the beginning of the annual report | Item 27A(b) of Form N-1A | Section II.B.2.a |
| **Expense example** *(Form N-1A Item 27(d)(1))* | Retain in annual report in a more concise form | Item 27A(c) of Form N-1A | Section II.B.2.b |
| **Management's discussion of fund performance ("MDFP")** *(Form N-1A Item 27(b)(7))* | Retain in annual report in summary form | Item 27A(d) of Form N-1A | Section II.B.2.c |

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106 This release separately discusses the proposed content requirements for funds' semi-annual reports. *See infra* Section II.C.

107 *See infra* Section II.B.4.

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|---|---|---|---|
| -- | Add new fund statistics section to the annual report | Item 27A(e) of Form N-1A | Section II.B.2.d |
| **Graphical representation of holdings** *(Form N-1A Item 27(d)(2))* | Retain in annual report | Item 27A(f) of Form N-1A | Section II.B.2.e |
| -- | Add new material fund changes section to the annual report | Item 27A(g) of Form N-1A | Section II.B.2.f |
| **Changes in and disagreements with accountants** *(Form N-1A Item 27(b)(4))* | Retain in annual report in summary form<br><br>The entirety of the currently-required disclosure would move to Form N-CSR and would need to be available online and delivered (in paper or electronic format) upon request | Item 27A(h) of Form N-1A<br><br>Item 8 of Form N-CSR<br><br>Rule 30e-1(b)(2) and (b)(3) | Section II.B.2.g<br><br>Section II.D.1.c |
| **Statement regarding liquidity risk management program** *(Form N-1A Item 27(d)(6)(ii))* | Retain in annual report | Item 27A(i) of Form N-1A | Section II.B.2.h |
| **Statement regarding the availability of quarterly portfolio schedule, proxy voting policies and procedures, and proxy voting record** *(Form N-1A Item 27(d)(3) through (5))* | Include a more general reference to the availability of additional fund information in the annual report | Item 27A(j) of Form N-1A | Section II.B.2.i |
| -- | Add provision allowing funds to optionally disclose in their annual reports how shareholders may revoke their consent to householding | Item 27A(k) of Form N-1A | Section II.B.2.j |

| | | | |
|---|---|---|---|
| **Financial statements, including schedule of investments** *(Form N-1A Item 27(b)(1))* | Move to Form N-CSR<br><br>Would need to be available online and delivered (in paper or electronic format) upon request | Item 7(a) of Form N-CSR<br><br>Rule 30e-1(b)(2) and (b)(3) | Section II.D.1.a |
| **Financial highlights** *(Form N-1A Item 27(b)(2))* | Retain certain data points, but generally move to Form N-CSR<br><br>Would need to be available online and delivered (in paper or electronic format) upon request | Item 7(b) of Form N-CSR<br><br>Rule 30e-1(b)(2) and (b)(3) | Section II.D.1.b |
| **Results of any shareholder votes during the period** *(Rule 30e-1(b))* | Move to Form N-CSR<br><br>Would need to be available online and delivered (in paper or electronic format) upon request | Item 9 of Form N-CSR<br><br>Rule 30e-1(b)(2) and (b)(3) | Section II.D.1.d |
| **Remuneration paid to directors, officers, and others** *(Form N-1A Item 27(b)(3))* | Move to Form N-CSR<br><br>Would need to be available online and delivered (in paper or electronic format) upon request | Item 10 of Form N-CSR<br><br>Rule 30e-1(b)(2) and (b)(3) | Section II.D.1.e |
| **Statement regarding the basis for the board's approval of investment advisory contract** *(Form N-1A Item 27(d)(6)(i))* | Move to Form N-CSR<br><br>Would need to be available online and delivered (in paper or electronic format) upon request | Item 11 of Form N-CSR<br><br>Rule 30e-1(b)(2) and (b)(3) | Section II.D.1.f |
| **Management information and statement regarding availability of additional information about fund directors** *(Form N-1A Item 27(b)(5) and (6))* | Remove from shareholder reports, but information would remain available in a fund's SAI, which is available online or delivered upon request | | Section II.E |

| **Rule 30e-3 disclosure, if applicable** *(Form N-1A Item 27(d)(7))* | Remove from shareholder reports | | Section II.G |
|---|---|---|---|
| **Funds have discretion to provide other information in their shareholder reports (*e.g.*, president's letters)** | Limit annual report disclosure to that which is permitted or required under proposed Item 27A of Form N-1A | Instruction 1 to Item 27A(a) of Form N-1A | Section II.B.1.b |

### 1. Scope of Annual Report Disclosure, and Registrants Subject to Amendments

We propose to limit the scope of funds' annual reports in several respects to reduce their overall length and complexity. First, we propose to require a fund to prepare separate annual reports for each of its series. Second, we generally propose to limit the content a fund may include in its annual report.

#### a. Scope With Respect to Separate Series and Classes

Many mutual funds and ETFs are organized as single registrants with several series (sometimes referred to as portfolios).[108] Each series has its own investment objectives, policies, and restrictions. The Federal securities laws and Commission rules often treat each series as a separate fund.[109] A single fund or series can have multiple share classes. Classes typically differ based on fee structure, with each class having a different sales load and

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108 *See* sections 18(f)(1) and (2) of the Investment Company Act [15 U.S.C. 80a-18(f)(1) and (2)]; 17 CFR 270.18f-2 [rule 18f-2 under the Investment Company Act].

109 *See, e.g.*, 17 CFR 270.22c-2(c)(2); 17 CFR 270.22e-4(a)(5); General Instruction A to Form N-1A (defining "fund" to mean a registrant or a separate series of the registrant).

distribution fee. Series and classes of a registrant are often marketed separately, without reference to other series or classes or to the registrant's name.[110]

Currently, fund registrants may prepare a single shareholder report that covers multiple series. We believe this approach contributes to the length and complexity of shareholder reports. For example, a shareholder that is invested in one series of the registrant would need to spend more time searching through the report to find disclosure related to his or her investment. Moreover, a shareholder report that provides information for multiple series may present an increased risk of shareholder confusion. For instance, if two series included in the same shareholder report were to have similar names, there could be a greater risk that a shareholder would mistakenly review information that does not relate to his or her investment. Because the length and complexity associated with multi-series shareholder reports are inconsistent with our goal of creating concise shareholder report disclosure that a shareholder can more easily use to assess and monitor his or her ongoing fund investment, we are proposing to require fund registrants to prepare separate annual reports for each series of the fund.[111] As a result, a shareholder would receive an annual report that only addresses the series in which he or she is invested. We believe that this more-focused annual report would

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110 *See* Rulemaking for EDGAR System, Investment Company Act Release No. 26990 (July 18, 2005) [70 FR 43558 (July 27, 2005)], at text following n.17.

111 *See* Instruction 4 to proposed Item 27A(a). Similarly, we have generally required that registrants present summary information separately for each fund in a multiple fund prospectus to promote the goal of concise, readable summaries. *See* 2009 Summary Prospectus Adopting Release, *supra* footnote 10, at text accompanying nn.43-60. Under the proposal, fund registrants could continue to include multiple shareholder reports that cover different series in a single Form N-CSR report filed on EDGAR. We do not believe this would affect the usability of the information for shareholders because shareholder reports for each series would separately be available online, and we understand that shareholders generally do not go to EDGAR to find fund shareholder reports. *See, e.g.*, *supra* footnote 74.

be more relevant to shareholders than a multi-series report and, accordingly, shareholders would be more likely to read such disclosure.

Although we are proposing to restrict funds' annual reports to include only one series of a fund, our proposal would not require a shareholder report to cover a single class of a multiple-class fund.[112] Because different share classes of a fund represent interests in the same investment portfolio, much of the proposed shareholder report disclosure would be the same for all classes.[113] For disclosure that would differ among classes, such as expenses and performance data, the amended disclosure requirements that we are proposing would specifically require funds to provide certain class-specific information.[114]

We request comment on the proposed scope of disclosure for the annual report, including the following:

1. Would the proposed requirement that a fund registrant prepare separate annual reports for each of its series result in shareholder report disclosure that is easier for fund shareholders to navigate and assess? If not, why not? Would requiring separate annual reports for each series increase the reports' relevance to shareholders and increase the likelihood that

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112 *See* Instruction 4 to proposed Item 27A(a). This approach is similar to the approach taken in the summary prospectus, which similarly may describe more than one class of a fund. *See* rule 498(b)(4) [17 CFR 230.498(b)(4)].

113 For example, this would include, among other disclosure items, graphical representations of holdings, the required statistics (*i.e.*, the size of the fund, its number of holdings, and portfolio turnover rate), the narrative discussion of factors that affected the fund's performance, and most categories of material fund changes.

114 We discuss these proposed requirements in more detail below. *See infra* Section II.B.2.b (discussing the proposed requirement to provide expense information for each class) and Section II.B.2.c.ii (discussing the proposed requirement to disclose average annual total returns for 1-, 5-, and 10-year periods for each class).

shareholders would read them? If not, why not? How would this proposed requirement affect the approach fund registrants currently use to prepare and transmit shareholder reports? Are there ways to modify the proposed instruction that would further improve disclosure for shareholders or reduce burdens for fund registrants? Instead of the proposed instruction, should we continue to permit fund registrants to prepare a single annual report that covers multiple fund series, as they may today? If so, why, and should there be any limits on the number of series for which information is presented?

2. Are there certain types of funds for which a multi-series presentation in an annual report may be useful to shareholders? If so, which types of funds, and what are the benefits of a multi-series presentation to shareholders? Should we permit certain types of funds, but not others, to prepare annual reports covering multiple series of the same fund?

3. Are there ways we could allow multi-series presentations in annual reports while also promoting our goals of providing concise, readable disclosure to existing shareholders that is tailored to their informational needs? If so, how?

4. A fund may have multiple share classes with differing fee structures. Should these multi-class funds be permitted to reflect only one or a subset of classes, rather than all share classes in a shareholder report so long as a fund produces a shareholder report that relates to each share class? Would such an approach reduce the complexity of the disclosure and provide more-tailored information that is specific to a shareholder's investment in the fund? Or, conversely, would such a requirement not benefit shareholders? For example, could it reduce shareholders' ability to compare classes of a fund? Should there be limits on the number or types of classes that a single annual report may cover to reduce potential complexity or length? For example, should we prohibit an annual report transmitted to retail

shareholders from including disclosure related to a fund's institutional class? Are there potential complexities or burdens associated with such an approach? Please explain.

b. Scope of Content

As a general matter, we are proposing to allow a fund to include in its annual report only the information that Item 27A of Form N-1A specifically permits or requires.[115] We believe that allowing only the required or permitted information to appear in a fund's annual report would promote consistency of information presented to shareholders and would allow retail shareholders to focus on information particularly helpful in monitoring their investment in a fund.[116] We also believe this approach would encourage more impartial information by preventing funds from adding information commonly used in marketing materials.

We recognize, however, that there may be limited circumstances in which it may be appropriate for a fund to provide more or less information than what proposed Item 27A of Form N-1A would permit or require. Specifically, if a fund's particular circumstances may cause the required disclosures to be misleading, the proposal would allow the fund to add additional information to the report that is necessary to make the required disclosure items not

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115 *See* Instruction 3 to proposed Item 27A(a) of Form N-1A; *see also infra* Section II.B.2 (discussing the content requirements of the proposed annual report, as well as certain optional content that a fund may include in its annual report).

We are, however, proposing flexibility with respect to the use of online tools to assist shareholders in understanding the contents of an annual report that appears online or otherwise is provided electronically. *See* Instruction 8 to proposed Item 27A(a) of Form N-1A; *see also* discussion at section II.B.4 *infra.*

116 Many of the proposed instructions to each requirement provide some flexibility so that a fund can tailor its presentation of information to match how the fund invests. For instance, a fund has the ability to select the categories that are reasonably designed to depict clearly the types of a fund's investments when preparing its graphical representation of holdings. *See* proposed Item 27A(f) of Form N-1A.

misleading.[117] As an example, if a fund changed its investment policies or structure during or since the period shown, the expense, performance, or holdings information that a fund must include in its annual report may require additional disclosure to render those presentations not misleading. Disclosure in response to this provision should generally be as brief as possible. Moreover, if a required disclosure is inapplicable, the proposed rule would permit the fund to omit the disclosure.[118] Similarly, to promote better-tailored disclosure, a fund would be permitted to modify a required legend or narrative information if the modified language contains comparable information to what is otherwise required.[119]

The proposed amendments to Form N-1A would not permit a fund to incorporate by reference any information into its annual report.[120] That is, a fund could not refer to information that is located in other disclosure documents in order to satisfy the content requirements for an annual report. The limited number of proposed disclosure items in the annual report is designed to promote the goal of providing a concise, more-engaging report that gives shareholders key information to assess and monitor their ongoing fund

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117 *See* Instruction 2 to proposed Item 27A of Form N-1A (permitting a fund to include disclosure that is required under 17 CFR 270.8b-20 (rule 8b-20 under the Investment Company Act)); rule 8b-20 under the Investment Company Act (providing, "[i]n addition to the information expressly required to be included in a registration statement or report, there shall be added such further information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading").

118 *See* Instruction 7 to proposed Item 27A(a) of Form N-1A.

119 *See id*.

120 *See* Instruction 5 to proposed Item 27A(a). Incorporation by reference refers to the practice of, instead of including disclosure in a specific document, referring to another document that contains the specified information.

investments.[121] We do not believe that permitting funds to incorporate information by reference into the shareholder report is consistent with this goal, because it would require shareholders to take an additional step to locate information that funds incorporate by reference into their reports. While the proposed rule would require or permit a fund's shareholder report to refer to other materials in some cases, those other materials would not incorporate information into the fund's shareholder report for purposes of satisfying the annual report disclosure requirements.[122]

Although the proposed rule would only permit the inclusion of certain information in the annual report, it would not prevent a fund from referring shareholders to the availability of certain additional website information near the end of the report or providing additional information to shareholders in the same transmission as the annual report.[123] For example, the proposed rule would not preclude a fund from providing a letter to investors explaining its management philosophy or investment outlook in the same transmission that includes the annual report. However, the proposal would require that the shareholder report be given greater prominence than these other materials, except for certain specified disclosure materials.[124] We would generally consider a fund to satisfy the "greater prominence"

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121 *See, e.g.*, Instructions 1, 3, and 5 to proposed Item 27A(a) of Form N-1A.

122 *See, e.g.*, Instructions 8 and 9 to proposed Item 27A(a) of Form N-1A; proposed Items 27A(b)(4) and 27A(j) of Form N-1A.

123 *See* proposed Item 27A(j) of Form N-1A; *infra* Section II.B.2.i (discussing the provision that would allow funds to refer to the availability of additional website information, if the fund reasonably believes shareholders would likely view the information as important).

124 *See* Instruction 12 to proposed Item 27A(a) of Form N-1A. This is substantially similar to a requirement in rule 498, which provides that a fund's summary prospectus generally must be given greater prominence than other materials that accompany the summary prospectus. *See* rule 498(f)(2).

requirement if, for example, the shareholder report is on top of a group of paper documents that are provided together or, in the case of an electronic transmission, the email or other message includes a direct link to the report or provides the report in full in the body of the message.[125] This proposed requirement would not, however, apply to certain specified disclosure materials that a fund may transmit with an annual report, which include summary prospectuses, statutory prospectuses, notices of the online availability of proxy materials, and other shareholder reports.[126]

We request comment on the scope of content that the proposed rule would require or permit a fund to include in its annual report, including the following:

5. Is it appropriate to restrict the content of a fund's annual report to include only the information the form would permit or require? If not, why not? Would these proposed limits on content create a more effective presentation for investors? Are there other approaches we should consider (such as permitting space in the annual report for funds to disclose other information they deem important to investors)? What are the benefits and drawbacks of shorter or longer disclosure, or a more flexible approach to disclosure, for investors relative to the proposed approach?

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125 These examples of how funds may satisfy the proposed prominence requirement are consistent with interpretations of similar requirements in other Commission rules and forms. *See, e.g.*, 2009 Summary Prospectus Adopting Release, *supra* footnote 10, at text accompanying n.220 ("Generally, we believe that the 'greater prominence' requirement would be satisfied if the placement of the Summary Prospectus is more prominent than accompanying materials, *e.g.*, the Summary Prospectus is on top of a group of paper documents that are provided together."); General Instructions 10.C and 10.D of Form CRS (requiring a relationship summary delivered in paper format to be the first among any documents delivered at that time, and a relationship summary delivered electronically to be presented prominently in the electronic medium (*e.g.*, as a direct link or in the body of an email or message)).

126 See id.

6. Is it appropriate for funds to have flexibility to include other communications to shareholders in the same transmission as a shareholder report? Should the shareholder report be subject to the proposed prominence requirement? If not, should we require other prominence or formatting standards if the transmission includes other materials, or should we impose other requirements or limitations associated with materials that funds could transmit along with the shareholder report?

7. As proposed, should we allow a fund to modify a required legend or narrative information as long as the modified language contains comparable information? If not, why not? Should we use this approach for all aspects of the annual report, or are there particular areas where requiring uniform language across all funds' annual reports would be particularly valuable to shareholders, for example, to facilitate comparisons or improve shareholder understanding? If so, how should we balance the potential value of uniform language with potential concerns that uniform language may not be well-tailored to a particular fund or its shareholders?

8. Is it appropriate not to permit funds to incorporate information by reference into their annual reports, as proposed? If not, why not? Is there certain information that a fund should be permitted to incorporate by reference into its annual report? If so, what information, and why?

c. Scope With Respect to Other Registrants

Our proposed amendments to annual reports would only apply to shareholder reports for investment companies registered on Form N-1A. These funds represent the vast majority

of investment company assets under management.[127] We also have recently adopted changes to the disclosure framework for closed-end funds and variable insurance contracts tailored to these investment companies' characteristics and, in the case of closed-end funds, to implement congressional directives.[128] The recently adopted changes to closed-end fund disclosure include multiple changes to these funds' shareholder report disclosures, and we would like to understand funds' and investors' experience with this new disclosure framework before proposing additional disclosure amendments.[129] Similarly, we anticipate that the recently adopted changes to the variable insurance contract disclosure framework would significantly change investors' experience with variable contract disclosure. While these changes are focused more on prospectus disclosure and not shareholder report disclosure, we would like to assess the impact of these changes prior to proposing additional disclosure changes for variable contracts.[130] Our proposed amendments therefore do not extend at this time to other investment companies such as closed-end funds, unit investment trusts, or

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127 *See infra* Section III.B.1.

128 *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27; Securities Offering Reform for Closed-End Investment Companies, Investment Company Act Release No. 33836 (Apr. 8, 2020) [85 FR 33290 (Jun. 1, 2020)] ("Closed-End Fund Offering Reform Adopting Release").

129 *See, e.g.*, Closed-End Fund Offering Reform Adopting Release, *supra* footnote 128, at Section II.I.2.a (discussing new annual report requirements for funds that file a short-form registration statement), Section II.I.2.b (discussing proposed MDFP disclosure that would appear in registered closed-end funds' annual reports), and Section II.I.5 (discussing enhancements to certain registered closed-end funds' annual report disclosure).

130 Moreover, of the variable contract structures, only variable contracts with separate accounts structured as management investment companies—those registered on Form N-3—have annual and semi-annual shareholder reporting requirements under rule 30e-1.

managed open-end investment companies not registered on Form N-1A (*i.e.,* issuers of variable annuity contracts registered on Form N-3).

We request comment on the scope of entities that would be covered by our proposed amendments to annual reports, including the following:

9. To what extent, if any, should the proposed amendments to shareholder reports be extended to other investment companies besides open-end mutual funds and ETFs organized as management investment companies?

10. For example, ETFs can be organized as management investment companies registered on Form N-1A or as unit investment trusts ("UITs") that are registered on Form N-8B-2 and subject to certain Commission exemptive orders. UIT ETFs are organized differently than and subject to a different disclosure framework than funds.[131] For example, exemptive orders for UIT ETFs generally require these ETFs to transmit annual reports that include their financial statements, but the content of these ETFs' annual reports is not necessarily the same as the current content of funds' annual reports. Despite these differences between funds and UIT ETFs, should UIT ETFs be permitted to rely upon proposed rule 498B, or permitted or required to use a tailored annual report? If so, to what extent, if any, should the conditions to rely on proposed rule 498B or use a tailored annual report be modified for UIT ETFs? If a UIT ETF were to use a tailored annual report, should the content

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[131] A UIT is an investment company organized under a trust indenture or similar instrument that issues redeemable securities. *See* section 4(2) of the Investment Company Act [15 U.S.C. 80a-4]. By statute, a UIT is unmanaged and its portfolio is fixed. A UIT does not have a board of directors, corporate officers, or an investment adviser to render advice during the life of the trust. ETFs organized as UITs seek to track the performance of an index by investing in the component securities of an index in the same approximate proportions as the index. *See* ETF Adopting Release, *supra* footnote 75, at nn.42, 44.

of its report differ from the content of a tailored annual report for open-end management companies? For example, should this ETF's financial statements remain in the report in accordance with its exemptive order, or should it be able to provide its financial statements through other means (*e.g.*, on a website and through a Form N-CSR report, even though these ETFs are not otherwise required to file Form N-CSR reports), subject to potential conditions that the ETF provide other information in an annual report? Do shareholders in UIT ETFs have the same informational needs as fund shareholders? For example, do UIT ETFs' shareholders need the same performance information, or do their needs differ since a UIT ETF generally replicates an index?

11. Should the Commission amend the requirements for registered closed-end funds' and BDCs' annual reports, to reflect any of the amendments we are proposing for open-end funds' annual reports?[132] As an example, the Commission recently adopted rules requiring: (1) certain closed-end funds (registered closed-end funds, as well as BDCs) to include key information in their annual reports regarding fees and expenses, premiums and discounts, and outstanding senior securities that the funds currently disclose in their prospectuses; and (2) registered closed-end funds to provide management's discussion of fund performance in their annual reports to shareholders.[133] If the Commission were to propose to tailor closed-end funds' shareholder reports in a manner that is similar to how we are proposing to tailor open-end funds' shareholder reports, how should such tailoring incorporate

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[132] *See also infra* text accompanying footnote 645 (asking whether to extend any of the new requirements for funds' prospectus risk disclosure to the risk disclosure that certain closed-end funds are required to include in their annual reports).

[133] *See supra* footnote 129.

these recently adopted disclosure requirements, as well as the other content that currently appears in closed-end funds' shareholder reports? For example, should we propose to update the fee and expense information that appears in closed-end funds' shareholder reports to more closely match the proposed fund expense presentation that would appear in open-end funds' shareholder reports? As another example, would it be appropriate to require closed-end funds to file on Form N-CSR certain information that currently appears in their shareholder reports (such as their full financial statements) and make this information available on a website, instead of including it in their reports, as we are proposing for open-end funds?

### 2. Contents of the Proposed Annual Report

The following table outlines the information the proposed rule would generally require funds to include in their annual reports. As is the case today, the proposed annual report would not be subject to page or word limits. We are not proposing page or word limits because we believe such limits could constrain appropriate disclosure or lead funds to omit material information. However, we believe that the proposed limits on the contents of these reports would limit their length, which would support our goal of concise, readable disclosure.[134]

***TABLE 2: OUTLINE OF PROPOSED ANNUAL REPORT***

| | *Description* | *Proposed Item of Form N-1A* | *Current Item of Form N-1A* |
|---|---|---|---|

[134] For example, we believe funds generally would be able to reduce the length of their annual reports from more than 100 pages on average to a more concise presentation that is approximately 3 to 4 pages in length for paper reports, or an equivalent length for electronic reports. For paper reports, the amendments may allow funds to deliver annual reports using a trifold self-mailer (or a similarly concise mailing). A trifold self-mailer can eliminate the need for an envelope or separate pieces of paper. It is generally a large piece of paper that is folded to create multiple pages of information within a self-contained piece of mail.

| | | | *Containing Similar Requirements* |
|---|---|---|---|
| Cover Page or Beginning of Report | Fund/Class Name(s) | Item 27A(b) | -- |
| | Ticker Symbol(s) | Item 27A(b) | -- |
| | Principal U.S. Market(s) for ETFs | Item 27A(b) | -- |
| | Statement Identifying as "Annual Shareholder Report" | Item 27A(b) | -- |
| | Legend | Item 27A(b) | -- |
| Content | Expense Example | Item 27A(c) | Item 27(d)(1) |
| | Management's Discussion of Fund Performance | Item 27A(d) | Item 27(b)(7) |
| | Fund Statistics | Item 27A(e) | -- |
| | Graphical Representation of Holdings | Item 27A(f) | Item 27(d)(2) |
| | Material Fund Changes | Item 27A(g) | -- |
| | Changes in and Disagreements with Accountants | Item 27A(h) | Item 27(b)(4) |
| | Statement Regarding Liquidity Risk Management Program | Item 27A(i) | Item 27(d)(6)(ii) |
| | Availability of Additional Information | Item 27A(j) | Item 27(d)(3) through (5) |
| | Householding Disclosure (optional) | Item 27A(k) | --* |

* Rule 30e-1(f)(3) currently requires a fund to explain, at least once a year, how a shareholder may revoke his or her consent to householding. This explanation is not currently required in funds' shareholder reports, and we similarly would not require it in the proposed annual report.

To help market participants understand this proposed disclosure, Appendix A to this release includes a hypothetical annual report. This hypothetical annual report is provided solely for illustrative purposes and is not intended to imply that it would reflect a "typical" annual report under the proposed amendments. We also are providing the hypothetical annual report to illustrate for investors what a more concise, tailored shareholder report could look like and are

providing a feedback flier that investors can use to provide their views on the hypothetical report and other issues in Appendix B.[135]

We discuss each of the proposed content requirements in detail below, including specific requests for comment regarding each proposed item of the annual report. In addition to the more-specific requests for comment below, we also request general comments on the proposed content requirements for funds' annual reports.

12. In addition to the proposed content requirements for funds' annual reports, should we require or permit funds to provide additional information in their shareholder reports? For example, is there other information that funds typically include in their annual reports as a matter of practice or to comply with other regulatory requirements (*e.g.*, tax-related disclosure under the Internal Revenue Code about the fund's distributions)? Would it be beneficial to shareholders to receive any additional information in the annual report, or should funds provide this information through other mechanisms (*e.g.*, on their websites, in materials separately transmitted with the annual report, or in account statements)?

13. Are the topics that funds would discuss in their annual reports under the proposed amendments appropriate to provide fund shareholders with key information for

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135 The hypothetical annual report is substantially similar to the prototype summary shareholder report that two commenters used in investor surveys. *See supra* footnote 44. For example, both of these sample reports provide information about a fund's expenses, performance, and holdings. The primary differences between the sample reports are that the hypothetical annual report would include a modified expense presentation, a performance line graph similar to current shareholder reports, and two new items related to fund statistics and material fund changes. Further, while the commenter that developed the prototype summary shareholder report supported the inclusion of liquidity risk management program disclosure, the prototype did not include this disclosure because the underlying requirement was not effective at that time. *See* ICI Comment Letter I.

assessing and monitoring their fund investments? Are there additional topics that should be required? Please explain. Are any of the topics redundant with information that appears in other disclosure requirements? If so, which topics, and why are they redundant?

14. How would the proposed amendments affect the length of funds' annual reports? Would the length of the proposed reports affect a fund's approach for delivering the full report in the mail, relative to its current approach for mailing annual reports?

15. Would proposed Item 27A result in disclosure that is of an appropriate length to be engaging and accessible to fund shareholders, or should we take additional steps to limit the length or complexity of annual report disclosure? For example, should we impose page or word limits on annual reports? If so, what should they be? Should we limit the length of any particular section of the annual shareholder report, and if so, what should these limits be?

a. Cover Page or Beginning of the Report

The proposed amendments to Form N-1A would require a fund to provide the following information on the cover page or at the beginning of the annual report:

- The name of the fund, as well as the class(es) to which the annual report relates;
- The exchange ticker symbol of the fund's shares, or the ticker symbol of each class adjacent to the class name;
- If the fund is an ETF, the principal U.S. market(s) on which the fund's shares are traded;
- A statement identifying the document as an "annual shareholder report;" and
- The following legend: "This annual shareholder report contains important information about [the Fund] for the period of [beginning date] to [end date] [as well as certain changes to the Fund]. You can find additional information about the Fund at [Fund

website address]. You can also request this information by contacting us at [toll-free telephone number and, as applicable, email address]."[136]

Currently, funds are not required to include specific cover page information in their shareholder reports. However, we understand that, as a matter of practice, funds typically include identifying information—such as the fund's name, the period of time the report covers, and whether the report is an annual or semi-annual report—at the beginning of the report or on a cover page. We are proposing to require specific identifying information at the beginning of the annual report so that shareholders can readily identify the purpose and scope of the report. This is also substantially similar to information that must appear at the beginning of fund prospectuses.[137]

The proposed legend is designed to help shareholders understand the purpose of the annual report, as well as the time period covered by the report. It also describes how a shareholder can obtain additional information about the fund, consistent with similar legends that appear on the cover page of the summary prospectus.[138] The website address a fund would provide in the legend would need to be specific enough to lead shareholders directly to the materials that would be required to be accessible on the fund's website under this proposal, including the fund's financial statements and financial highlights.[139] Funds also

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136 *See* proposed Item 27A(b) of Form N-1A. The reference to the "beginning" of an annual report is designed to address circumstances in which there is not a physical page that would precede the report, for example, when the report appears online or on a mobile device. *See infra* Section II.B.4.

137 *See* Item 1 of Form N-1A.

138 *See* rule 498(b)(1)(v).

139 *See* Instruction 2 to proposed Item 27A(b); *infra* Section II.C. The website could be a central site with prominent links to the materials that would need to be accessible under the proposed

would have discretion to include other ways a shareholder can find or request additional information about the fund, such as Quick Response Code ("QR code") or referring the reader to mobile applications.[140]

In addition, the proposed amendments would permit funds to include graphics, logos, and other design or text features to help shareholders identify the materials as the fund's annual report.[141]

We request comment generally on the proposed content requirements for the cover page or beginning of the annual report, and specifically on the following issues:

16. Is there additional information that we should permit or require funds to provide on the cover page or at the beginning of their annual reports? If so, what are the benefits of that additional information? For example, should we permit or require funds to include a table of contents, or would a table of contents add undue length to the shareholder report and provide limited benefits to shareholders given the general brevity of the report?

17. Should we remove or modify any of the information the proposed rule would permit or require funds to include on the cover page or at the beginning of their annual report, and if so, what information and how should we modify it?

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amendments to rule 30e-1.

140 A QR code is a two-dimensional barcode capable of encoding information such as a website address, text information, or contact information. For example, when included on print materials, these codes can be read using the camera on a smartphone to take the user directly to a specific website address.

141 *See* Instruction 1 to proposed Item 27A(b) of Form N-1A.

b. Fund Expenses

We are proposing a simplified expense presentation in the annual report that would require a fund to provide the expenses associated with a hypothetical $10,000 investment in the fund during the preceding reporting period. In particular, the table must show: (1) an assumed $10,000 beginning account value; (2) total return during the period, before deducting expenses; (3) expenses in dollars paid during the period; (4) ending account value in dollars, based on net asset value return and the assumed $10,000 beginning account value; and (5) expenses as a percent of an investor's investment in the fund (*i.e.* expense ratio).[142] ETFs must also include the ending value of the account based on market value return.[143] The proposed expense example would appear as follows, and the individual aspects of the example are described in more detail below.

**What were your Fund costs for the period? *(based on a hypothetical $10,000 investment)***

| [Fund or Class Name] | Beginning account value [beginning date] | Total return before costs paid* | **Costs paid†** | Ending account value [end date] (based on net asset value return) | [For ETF only] Ending account value [end date] (based on market value return) | **Costs paid as a percentage of your investment†** |
|---|---|---|---|---|---|---|
| | $10,000 | + (plus) $[x] | **- (minus) $[x]** | = (equals) $[x] | | **%** |

142 *See* proposed Item 27A(c) of Form N-1A; *see also* discussion at *infra* Section II.B.4 and *infra* footnote 338 and accompanying text for a discussion of additional tools a fund can provide online to facilitate shareholder engagement.

143 *See* proposed Item 27A(c) of Form N-1A.

* In this footnote, the fund would be required to describe qualitatively in plain English other costs included in total return, if material to the fund. For example, if applicable and material, the fund would note that fund investment transaction costs, securities lending costs, or acquired fund fees and expenses reduced the total return.
† In this footnote, the fund would be required to note in plain English that the actual costs paid during the period do not reflect certain costs paid outside the fund (such as purchase and exit costs charged by the shareholder's broker-dealer).

Commenters on the Fund Investor Experience RFC stated that shareholders believe the information provided in the current shareholder report expense example is important because it helps them understand the costs associated with investing in the fund.[144] The proposed expense information is intended to reflect shareholders' preferences to understand fee and expense information, while simplifying the expense example that currently appears in funds' shareholder reports.

Funds' shareholder reports currently include an expense example consisting of two different tables.[145]

- The first table shows the actual cost in dollars for a $1,000 investment in the fund over the prior six-month period based on the actual return of the fund. This presentation is

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144 *See, e.g.*, ICI Comment Letter I (stating that the information provided in the current expense example is responsive to investors' keen interest in knowing how much it will cost them to invest in a fund); *see also* Capital Group Comment Letter (noting that the current expense example provides investors with information on the cost of their investments).

145 *See* Item 27(d)(1) of Form N-1A. The instructions to this item require a fund to calculate the expense example using a fund's expense ratio for the preceding six months and not to include the impact of sales loads, if any.

intended to help a shareholder calculate the actual ongoing fund expenses, in dollars, that he or she has incurred.

- The second table shows the cost in dollars for a $1,000 investment in the fund over the prior six-month period based on a hypothetical 5% annual return (and not, as for the first table, the actual return of the fund during that period). Because funds are required to use the same hypothetical annual return in calculating their expenses here, this second table is designed to help shareholders compare the expenses of their fund with those of other funds.[146]

Currently, the fund expenses presented in the shareholder report expense examples are different in several respects from those in the prospectus fee table and example. The shareholder report example is derived from a fund's financial statements and therefore reflects actual historical expenses that a shareholder incurred over the past year (*i.e.*, backwards-looking expenses). The prospectus example, on the other hand, reflects hypothetical future expenses (*i.e.,* forward-looking expenses).[147] Currently, the prospectus fee table also reflects sales loads that an investor would pay and the expenses associated with the fund's investments in another fund (referred to as Acquired Fund Fees and Expenses ("AFFE")), whereas the shareholder report expense presentation does not, because these elements are not

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146 The first table does not permit a direct comparison of fund costs because positive performance would make fund expenses expressed as a dollar amount higher and negative performance would make fund expenses expressed as a dollar amount lower. So, for example, if two funds had the same fees, the fund with the better performance would appear more expensive. *See* February 2004 Shareholder Report Adopting Release, *supra* footnote 83.

147 *See* February 2004 Shareholder Report Adopting Release, *supra* footnote 83, at text following n.96.

reflected in the fund's financial statements.[148] Additionally, unlike the shareholder report example, the prospectus fee table must reflect any material changes in fees that occurred since the prior fiscal year and cannot reflect certain fee waivers.[149]

The information about fund expenses that we are proposing funds include in the annual report is designed to simplify the expense example that currently appears in funds' shareholder reports, and to provide shareholders with additional tools to understand the expenses they paid during the prior fiscal year. The proposal would replace the two current expense examples in the shareholder report with one simplified expense table. The new table would vary from the current disclosures in several respects. First, under the proposal, funds would have to provide the expenses associated with a $10,000 investment in the fund, rather than the current $1,000 investment amount.[150] We are proposing to increase the dollar value because we believe that $10,000 is a more realistic investment amount for an individual shareholder today.[151] Additionally, because Form N-1A requires funds to use an assumed

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148 *See* Item 27(d)(1) of Form N-1A; *see also* Section II.H.1.g (discussing proposed changes to the disclosure requirements for AFFE in fund prospectuses, which would permit funds that invest 10% or less of their total assets in acquired funds to omit the AFFE line item in the fee table and instead disclose the amount of the fund's AFFE in a footnote to the fee table).

149 *See* Instruction 3(d)(ii) and 3(e) of Item 3 of Form N-1A (prohibiting a fund from reflecting fee waivers unless they reduce the fund's operating expenses for no less than one year from the effective date of the fund's prospectus).

150 *See* proposed Item 27A(c) of Form N-1A.

151 *See* Registration Form Used by Open-End Management Investment Companies, Investment Company Act Release No. 23064 (Mar. 13, 1998) [63 FR 13916 (Mar. 23, 1998] ("1998 Form N-1A Prospectus Amendments"), at n.74 and accompanying text (increasing the hypothetical investment to $10,000 in the prospectus example presentation because the Commission recognized that the typical fund investment was increasing in size). Because we are proposing to raise the hypothetical investment amount to $10,000, we are also proposing to similarly raise the required rounding conventions for dollar values in the table to the nearest dollar, rather than the nearest cent.

$10,000 investment for the expense presentation in the prospectus, the proposal would align this aspect of the two expense presentations and promote a more consistent disclosure experience for investors.[152] Similarly, we are proposing to align the rounding conventions of the expense presentations in the shareholder report with those of the prospectus.[153]

Furthermore, funds would no longer be required to show the total amount of expenses along with hypothetical return information for the period. Instead, funds would continue to provide expense information along with actual return information, with amendments to this presentation of expenses that we believe would help show shareholders how much of their money was actually invested in the market (versus how much of their money was paid for fees and expenses).[154] Like the current expense presentation, the proposed presentation would show an assumed beginning account value, an ending account value, and expenses paid during the period. However, rather than only requiring funds to disclose the ending account value net of fees (as they do today), we are proposing to require funds to disaggregate this amount. Funds would individually disclose: (1) the costs paid during the period, (2) the fund's total return during the period before costs were paid, and (3) the ending account value based on the fund's net asset value return. A fund would have to provide each of these figures as a

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152 *But see supra* footnotes 147 through 149 and accompanying text (discussing the key differences between the presentation of expense information in the prospectus and the shareholder report).

153 *See* proposed Instruction 1(a) of Item 27A(c) of Form N-1A (requiring all percentages in the table to be rounded to the nearest hundredth of one percent and all dollar figures in the table to be rounded to the nearest dollar).

154 The expense example in the annual report would provide expense information that covers a 12-month reporting period.

mathematical expression (using "+", "-", and "=" signs), as shown in the example above.[155] Costs would have to be expressed as a negative amount (with a "-" sign preceding the cost amount), and total return, if negative during the period, also would have to be expressed as a negative amount with a "-" sign preceding it. Conversely, if the fund's total return were positive during the period, it would be preceded by a "+" sign.

We believe that this presentation would facilitate a shareholder's understanding of how costs and performance affect his or her ending account value. Fund fees and expenses are central information for shareholders because they can significantly affect a fund's investment returns over time.[156] We recognize that shareholders could benefit from additional transparency into the costs associated with investing in the fund. However, while some of these costs are fixed and easily quantifiable, others are variable and can be difficult to calculate.[157]

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155 *See* proposed Instructions 1(b) of Item 27A(c) of Form N-1A ("Provide the amounts in each of the columns as a mathematical expression, as appropriate (*i.e.*, include +, - and = symbols). Costs paid during the period must be expressed as a negative amount. Total return, if negative during the period, must be expressed as a negative amount.").

156 *See* Fund Investor Experience RFC, *supra* footnote 8, at text accompanying n. 36. Some commenters on the Fund Investor Experience RFC expressed concern that fund disclosure may not accurately represent the full costs associated with a fund investment. *See, e.g.*, Delmonte Comment Letter; Fowler Comment Letter; Blanchard Comment Letter.

157 For example, some commenters on the Fund Investor Experience RFC discussed challenges associated with disclosing transaction costs, including a potential negative impact on investors' ability to understand fund costs. *See, e.g.*, ICI Comment Letter I; Comment Letter of BlackRock, Inc. (Oct. 31, 2018) ("BlackRock Comment Letter"). Based on experience in certain jurisdictions that require transaction cost disclosure, these commenters indicated that transaction cost disclosure can confuse or mislead investors—including through reported transaction costs of zero or negative amounts in some instances in those jurisdictions—because funds may use different calculation methods and certain calculation inputs are subjective in nature. *See* ICI Comment Letter I; *see also* Slippage Causes Confusion in MiFID II Fund Rules Row, Chris Flood, Financial Times (Jan. 26, 2018), *available at* https://www.ft.com/content/7b37016a-00fc-11e8-9650-9c0ad2d7c5b5.

The proposed presentation is designed to help investors evaluate these costs by disclosing costs directly deducted from the fund's assets alongside the fund's return. The fund's return will reflect these costs as well as any performance expenses associated with the fund's portfolio management activities (such as the fund's securities lending activities and transaction costs associated with the fund purchasing and selling portfolio investments). Similarly, some fund expenses are paid directly as fees for investing in the fund, while others are performance expenses associated with the fund's portfolio management activities. We believe it is important for shareholders to appreciate fully the costs they pay to invest in a fund, and how performance expenses affect the fund's investment return. We also are proposing to require that funds qualitatively describe, in a footnote to the example, any of these performance expenses that are material as discussed below. We are not proposing to require a similar presentation based on hypothetical performance, because we believe that the primary purpose of a shareholder report is to provide shareholders with actual information about the fund's performance and expenses over the past year or half-year period.[158]

We also are proposing certain ETF-specific disclosures that would provide shareholders more transparency into the unique cost structure of an ETF. Under our proposal, an ETF would be required to disclose two versions of the ending account value, one based on the ETF's net asset value return and the other based on its market value return.[159] This

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[158] *See supra* footnote 147 and accompanying text. While the current expense example based on a hypothetical 5% annual return was designed to help shareholders compare the expenses of their fund with those of other funds, we believe that the proposed requirement to present expense information as a percentage as well as a dollar amount also would provide this comparative value. *See supra* footnote 146 and accompanying text; *infra* paragraph accompanying footnote 161.

[159] We are also proposing conforming changes to Item 13(a) of Form N-1A to incorporate the

proposed requirement is designed to allow shareholders to understand any difference between the ETF's performance and market price, and to highlight for shareholders the indirect costs associated with investing in an ETF, including commissions and premium/discount costs.[160]

Unlike the current expense presentation, we are proposing to require funds to present expense information in two formats: (1) as a dollar amount, as discussed above; and (2) as a percentage of a shareholder's investment in the fund (which would be a new addition to the current presentation). We believe that requiring two formats would provide shareholders with a more complete understanding of the expenses associated with their investments. The proposed new percentage-based expense information is designed to provide shareholders with a basis for comparing the level of current period expenses of different funds (as percentages are comparable). This addition would complement the dollar-based expense presentation, which is designed to permit shareholders to estimate the costs, in dollars, that they incurred over the reporting period. We are also proposing to require funds to give the expense columns (*i.e.*, the "costs paid" and "costs paid as a percentage of your investment" columns) of the table more prominence than the remainder of the expense table to draw the attention of

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requirement for ETFs to disclose total return based on the ETF's per share market value return in the financial highlights. *See* proposed amendments to General Instruction 3 of Item 13(a) of Form N-1A.

160 *See* proposed General Instruction 1(i)(*i*) of Item 27A(c) of Form N-1A. We also are proposing to maintain the current instructions specific to ETFs, including the requirement to state that investors may pay brokerage commissions on their purchases and sales of ETF shares, which are not reflected in the expense table, as well as the requirement to exclude any fees charged for the purchase and redemption of the ETF's creation units. *See* proposed General Instruction 1(i)(*ii*) and 1(i)(*iii*) of Item 27A of Form N-1A.

investors to these important data points. Funds would have flexibility to use various text and table features to satisfy this requirement.[161]

We also are proposing several modifications to simplify other aspects of the required expense disclosure. First, we are proposing to remove the currently required narrative preamble to the expense table in its entirety.[162] As a replacement for this preamble, we are proposing certain specified brief required footnotes to the table.[163] We believe that the simplified expense table, along with the footnotes to the table that we would require funds to include, would provide shareholders with the most relevant information from the lengthy preamble that currently precedes the expense example.

First, a fund would be required to include a footnote to the "total return before costs paid" column that qualitatively describes, in plain English, other costs that are included in the fund's total return, if material to the fund. For example, if applicable, the fund should explain that total return includes fund investment transaction costs, securities lending costs, or AFFE, and that these costs materially reduced the fund's return.[164] We believe that requiring this qualitative discussion would give funds the opportunity to describe certain expenses that may

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161 *See* proposed General Instruction 1(c) of Item 27A(c) of Form N-1A (providing flexibility for funds to use, for example, graphics, larger font size, different border width or column shading, or different colors or font styles to satisfy this prominence requirement).

162 Currently, a fund must precede the expense example with a narrative preamble explaining that the purpose of the expense example disclosure is to help shareholders understand the ongoing costs of investing in the fund and to compare those costs with the ongoing costs of investing in other mutual funds. The preamble defines ongoing costs as fund expenses, including management fees and distribution [and/or service] (12b-1) fees. *See* Item 27(d)(1) of Form N-1A.

163 *See* footnotes to the expense example in proposed Item 27A(c).

164 *See* Instruction 1(f) to proposed Item 27A(c)

be difficult to calculate, but that materially affect fund performance. Also, by requiring funds to describe these types of performance expenses in a footnote, while including the direct costs of the fund in the expense example, shareholders might be better able to appreciate the fact that the costs associated with their investment include both fixed costs and indirect variable costs.

Furthermore, a fund would be required to briefly explain, in plain English, in a footnote to the "Costs paid as a percentage of your investment" column that the expense information does not reflect shareholder transaction costs associated with purchasing or selling fund shares.[165] This would draw investor attention to the fact that there may be additional costs not reflected in the expense example, if applicable. Finally, if a fund's shareholder report covers a period of time that is less than a full reporting year, the fund would be required to include a footnote to the table noting this and explaining that expenses for a full reporting period would be higher than the figures shown.[166]

We also are proposing certain modifications to the instructions associated with the computation of fund expenses to reflect the proposed changes to the expense example. We are proposing an instruction that would direct funds to calculate "Costs paid" by multiplying the figure in the "Cost paid as a percentage of your investment" column by the average account value over the period based on an investment of $10,000 at the beginning of the period.[167] The

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165 *See* Instruction 1(g) to proposed Item 27A(c). Funds would not be required to disclose the amount of such fees.

166 *See* Instruction 1(i) to proposed Item 27A(c). This would generally apply to newly formed funds that are required to file an annual or semi-annual report for a period less than the reporting period.

167 *See* Instruction 2(a) to proposed Item 27A(c) of Form N-1A.

figure in the "Cost paid as a percentage of your investment" column, in turn, would be the fund's expense ratio as it appears in the fund's most recent audited financial statements or financial highlights.[168] The figure in the "Ending account value (based on net asset value return)" column would similarly be derived from figures in the fund's audited financial statements or financial highlights. To calculate this figure, the fund would multiply $10,000 by the fund's net asset value return as it appears in the fund's most recent audited financial statements or financial highlights.[169] The figure in the "Total return before costs paid" column would be calculated by subtracting $10,000 (the figure in the "Beginning account value" column) and the figure in the "Costs paid" column from the "Ending account value (based on net asset value return)" column.[170] Additionally, for ETFs we are proposing an instruction for how an ETF should calculate the ETF's ending account based on market value return.[171]

We are proposing to maintain certain of the current instructions that we believe would continue to provide useful information to shareholders. If a fund incurred any "extraordinary expenses" during the reporting period, we are proposing to continue to allow the fund to briefly describe, in a footnote to the expense table, what the actual expenses would have been

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168 *See* proposed Instruction 2(c). In the semi-annual report, the fund's expense ratio would be calculated in the manner required by Instruction 4(b) to Item 13(a) of Form N-1A, using the expenses for the fund's most recent fiscal half-year. *Id.*

169 *See* proposed Instruction 2(e). In the semi-annual report, the fund's ending account value would be calculated in the manner required by Instruction 3 to Item 13(a) of Form N-1A. *Id.*

170 *See* proposed Instruction 2(d) of Item 27A(c) of Form N-1A.

171 *See* proposed Instruction 2(f) of Item 27A(c) of Form N-1A (requiring funds to multiply $10,000 by the fund's market value return). In an ETF's annual report, an ETF would be required to use the market value return as it appears in the ETF's most recent audited financial statements or financial highlights in its calculations. In the semi-annual report, the fund's market value return should be calculated in the manner required by Instruction 3 to Item 13(a) of Form N-1A. *Id.*

if these extraordinary expenses were not incurred.[172] Similarly, if a fund is a feeder fund, we are proposing to continue to allow that fund to reflect the aggregate expenses of the feeder fund and the master fund in the expense table and to include a footnote stating that the expense table reflects the expenses of both the feeder and master funds.[173] Additionally, if the shareholder report covers more than one class of a fund or more than one feeder fund that invests in the same master fund, the shareholder report may include a separate expense table, or a separate line item in the expense table, for each class or feeder fund.[174]

We request comment on our proposed approach to revising the expense information that would appear in funds' annual reports, and specifically on the following issues:

18. Would the information that would be included in the proposed expense example permit shareholders to estimate the actual costs, in dollars, that they incurred over the reporting period and provide shareholders with a basis for comparing expenses across different funds? If not, why not? Which, if any, of the proposed disclosure requirements should we modify? Is there a better way of describing the fund's expenses to shareholders in the annual report?

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172 *See* Instruction 1(k) to proposed Item 27A(c) of Form N-1A (defining "extraordinary expenses" as "expenses that are distinguished by their unusual nature and by the infrequency of their occurrence. Unusual nature means the expense has a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the Fund, taking into account the environment in which the Fund operates. Infrequency of occurrence means the expense is not reasonably expected to recur in the foreseeable future, taking into consideration the environment in which the Fund operates. The environment of a Fund includes such factors as the characteristics of the industry or industries in which it operates, the geographical location of its operations, and the nature and extent of government regulation"); *see also* Instruction 2(a)(ii) to Item 27(d) of Form N-1A.

173 *See* Instruction 1(d) to proposed Item 27A(c) of Form N-1A.

174 *See* Instruction 1(e) to proposed Item 27A(c) of Form N-1A.

19. Should we, as proposed, require funds to provide the costs in dollars associated with investing in the fund based on an assumed $10,000 investment? Should we increase the assumed investment amount from $1,000 to $10,000, as proposed? Should we use some other amount, and if so, what amount would be more appropriate and why?

20. Should we, as proposed, align the rounding conventions included in the expense example instructions in the shareholder report with those included in the instructions to the prospectus expense table?

21. Should we, as proposed, require funds to disclose individually: (1) the costs paid during the period, (2) the fund's total return during the period before costs were paid, and (3) the ending account value based on the fund's net asset value return? Why or why not? Instead, should we require funds to disclose the total return net of fees? Are the proposed calculation instructions for these figures appropriate? Why or why not? Would providing expense information in this disaggregated manner facilitate shareholder understanding of how costs and performance each affect the ending account value? Why or why not?

22. Should we, as proposed, require funds to disclose the figures in the expense table as a mathematical expression? Would shareholders find this presentation useful?

23. Should we, as proposed, require funds to use text features to highlight the columns showing costs paid during the period (both in dollars and as a percentage of the investment)? Would this approach draw shareholder attention to those figures? Is there a particular format that we should require to highlight these columns, instead of (as proposed) providing flexibility in how to highlight them?

24. Should we require funds to provide the costs associated with investing in the fund as a percentage of a shareholder's investment in the fund (*i.e.*, expense ratio)? Would

this disclosure assist shareholders in comparing the level of current period expenses of different funds?

25. Should we, as proposed, require ETFs to provide the ending value of the account based on market value return, in addition to the value based on net asset value return? If so, should we require or permit ETFs to provide any additional information to explain the costs reflected in these two values to shareholders? For example, should we require or permit ETFs to provide a narrative explanation of what these values represent, how they differ from each other, and/or what impact they have on the fund's performance?

26. Should we require, as proposed, funds to include the expense ratio and cost in dollars only for the period covered by the report? Should we instead require funds to include fund expense information over other historical periods, such as 5 years, 10 years, or some other period?

27. Should we, as proposed, require funds to describe qualitatively other costs included in total return, if material to the fund? Would this requirement be helpful to investors, and if so, what types of investors would find the disclosure to be particularly helpful? If the disclosure would not be helpful to investors, why not? Should we instead permit, rather than require, funds to include these costs in the expense example or in a footnote? Should we require funds to separately disclose the amount of securities lending costs, or fund investment transaction costs, that the fund incurred during the period? Should we require funds to include in the footnote the amount of any acquired fund fees and expenses that the fund includes in its then-effective prospectus fee table? Would quantifying acquired fund fees and expenses in the footnote be appropriate in light of the fact that acquired fund fees and expenses are not included in a fund's audited financial statements, and calculation of

acquired fund fees and expenses can require a degree of estimation when the acquired funds have different fiscal year-ends than the acquiring fund? Would disclosing quantitative amounts of securities lending or fund investment transaction costs present the same or additional considerations? Is it appropriate for any or all of these costs to be included in a footnote? Should funds instead be required to include this information in the expense table itself? Is there another, more appropriate, place to include this information?

28. Should we, as proposed, require funds to briefly explain in a footnote that the example does not reflect transaction costs associated with purchasing or selling fund shares? Alternatively, should we permit, rather than require, funds to include this footnote?

29. Should we, as proposed, continue to allow a fund that is a feeder fund to reflect the aggregate expenses of the feeder fund and the master fund in the expense table and to include a footnote stating that the expense table reflects the expenses of both the feeder and master funds? Should we instead require feeder funds to separately disclose the fees associated with the feeder and the master funds, respectively?

30. Do the proposed footnotes to the expense presentation adequately convey the information that was previously included in the preamble to the current expense examples? If not, what additional information should we require or permit funds to disclose, and in what format should funds have to present this additional disclosure? Instead of including the information in footnotes, is there a more appropriate location for the information? Is there any additional information that we should permit or require funds to convey in notes to the expense presentation? For example, if the fund plans to increase its fees materially and this change would be disclosed in the proposed "Material Fund Changes" of the annual report,

should we either permit or require the fund to cross-reference this disclosure as a note to the expense presentation?

31. Should we adopt any additional or different expense disclosure requirements for certain types of funds? For example, in addition to what we proposed, are there any additional or different expenses that may only be relevant to ETFs (accounting for the unique characteristics of their structure) that we should require or permit ETFs to disclose?

32. Should we allow funds to cross-reference additional resources that would allow each shareholder to calculate the actual expenses that he or she paid? For example, should we allow funds to cross-reference online expense calculators produced by third-party vendors? Alternatively, should we allow funds to cross-reference an online expense calculator provided by the Commission or FINRA, such as FINRA's fund analyzer tool? Since FINRA's fund analyzer only provides forward-looking information, rather than the actual past expenses that shareholders have paid during the period, would this information be useful to shareholders?

33. In what ways can technology make personalized expense information possible? For example, should funds or intermediaries provide calculators or other tools to help investors understand their individual investment costs? Have improvements in technology since 2004, when the Commission considered requiring personalized expense information in quarterly account statements, made it easier for funds or intermediaries to provide personalized expense information in quarterly account statements or through other mechanisms?[175] If funds were to provide personalized expense information, how can we

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[175] *See* February 2004 Shareholder Report Adopting Release, *supra* footnote 83, at paragraph accompanying n.36 (recognizing that a requirement for individualized expense disclosure in quarterly statements would have required costly systems changes for funds and intermediaries

design the disclosure to reduce potential investor concerns about sharing their personal information or about data security? Are there any other concerns associated with such disclosure?

34. Should we require funds to submit interactive data files (for example, formatted using eXtensible Business Reporting Language ("XBRL")) containing their expense example information? Why or why not? Would it be useful for shareholders to have access to the expense example in a structured data format? Would this meaningfully complement the current requirement that funds submit their prospectus risk/return summary information in Inline XBRL format, or would it be duplicative with this current requirement? Is there any other information from funds' shareholder reports that we should require funds to submit in a structured data format?

c. Management's Discussion of Fund Performance

Given fund investors' interest in performance information for purposes of monitoring and assessing their ongoing fund investments, we propose largely to maintain the current requirements for the management's discussion of fund performance ("MDFP") section of the annual report, with several proposed targeted changes.[176] Currently, MDFP disclosure consists of the following:

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at that time).

[176] *See supra* footnote 47 and accompanying text (discussing information about investors' interest in shareholder report performance information, including the results of various investor testing and surveys in which approximately 60-80% of surveyed investors expressed interest in fund performance information or the narrative discussion of factors affecting the fund's performance).

- A narrative discussion of the factors that materially affected the fund's performance during the most recently completed fiscal year;
- A line graph providing account values for each of the most recently completed 10 fiscal years (or for the life of the fund, if shorter) based on an initial $10,000 investment in comparison to the returns of an appropriate broad-based securities market index for the same period (as well as more narrowly based indexes that reflect the market sectors in which the fund invests, at the fund's discretion);
- A table showing the fund's average annual total returns for the past 1-, 5-, and 10-year periods (or for the life of the fund, if shorter);
- A statement accompanying the line graph and table to the effect that past performance does not predict future performance and that these presentations do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of shares;
- A discussion of the effect of any policy or practice of maintaining a specified level of distributions to shareholders on the fund's investment strategies and per share net asset value, as well as the extent to which the fund's distribution policy resulted in distributions of capital; and
- For ETFs that do not provide certain premium or discount information on their websites, a table showing the number of days the fund shares traded at a premium or discount to net asset value.[177]

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[177] *See* Item 27(b)(7) of current Form N-1A.

We are proposing amendments to the MDFP requirements to make the disclosure more concise and to take into account that shareholders may no longer receive fund prospectuses—which include performance information—after their initial purchase of fund shares.[178] These proposed amendments therefore would require the MDFP to include additional performance-related information that is available in fund prospectuses, including certain class-specific performance information and comparative information showing the average annual total returns of one or more relevant benchmarks. We also are proposing to amend the definition of an appropriate broad-based securities market index to clarify that all funds should compare their performance to the overall applicable securities market, for purposes of both fund annual reports and prospectuses.

i. Narrative MDFP Disclosure

We propose to retain the current requirement that funds' annual reports include a narrative discussion of factors that materially affected the fund's performance during the most recent fiscal year, with minor modifications to encourage concise disclosure.[179] The narrative MDFP disclosure is designed to aid shareholders in assessing a fund's performance over the prior year.[180] We continue to believe this disclosure provides information that helps

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178 *See infra* Section II.F.

179 *See* Item 27(b)(7)(i) of Form N-1A; proposed Item 27A(d)(1) of Form N-1A. Currently, funds are required to discuss the factors that materially affected the fund's performance during the most recently completed fiscal year, including the relevant market conditions and the investment strategies and techniques used by the fund's investment adviser. Item 27(b)(7)(i) of Form N-1A.

180 *See* February 2004 Shareholder Report Adopting Release, *supra* footnote 83, at paragraph accompanying n.96; Disclosure of Mutual Fund Performance and Portfolio Managers, Investment Company Act Release No. 19382 (Apr. 6, 1993) [58 FR 19050 (Apr. 12, 1993)] ("MDFP Adopting Release").

shareholders understand and evaluate fund performance over that time period. However, based on staff review of current disclosures, we believe that some funds provide overly long narrative discussions that likely impede shareholders' ability to understand easily the key factors that affected the fund's performance. Therefore, we are proposing to amend the current requirement to specify that the disclosure must "briefly summarize" the "key" factors that materially affected the fund's performance during the last fiscal year, including the relevant market conditions and the investment strategies and techniques used by the fund's investment adviser.[181] A proposed instruction would direct funds not to include lengthy, generic, or overly broad discussions of the factors that generally affected market performance during a fund's last fiscal year.[182] The proposed instruction would also direct funds to use graphics or text features—such as bullet lists or tables—to present the key factors, as appropriate. We understand that some funds currently attempt to make their narrative disclosure easier for shareholders to understand by, for example, using tables or charts to show how the fund performed in comparison to a relevant benchmark or to identify the significant contributors to or detractors from the fund's performance by holding, industry, geographic region, or other relevant category. We believe these types of presentations may be helpful to shareholders, and funds could continue to include them in annual reports under the proposal.

We recognize that funds currently may include additional information in their shareholder reports that is designed to help shareholders understand fund performance and market conditions, such as a fund president's letter to shareholders, interviews with portfolio

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[181] *See* proposed Item 27A(d)(1) of Form N-1A.

[182] *See* Instruction 1 to proposed Item 27A(d)(1) of Form N-1A.

managers, market commentary, and other similar information. Under the proposed amendments, a fund could not include this additional information in its annual report.[183] We believe that information about the key factors affecting a fund's performance, which the proposal would require, would likely satisfy many fund shareholders' needs and would provide a more focused presentation. Although we understand that the additional information funds currently include in shareholder reports may be helpful to some shareholders, we believe the potential benefits of this information to a subset of shareholders, on balance, do not warrant the additional length they would contribute to the annual report. We also believe that allowing this discretionary information would not further our goal of presenting shareholders with the information that is most central to understanding their fund's performance. Funds would, however, be able to provide materials that include this additional information to shareholders in the same transmission as the annual report (*e.g.*, in the same email or envelope), provided that the annual report is given greater prominence.[184] Funds could also provide this additional information on their websites, as we understand many funds do today. Further, funds could refer to additional website information near the end of their

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[183] *See supra* Section II.B.1.b (discussing the proposed instruction that would permit funds only to include in their annual reports information that is permitted or required by proposed Item 27A).

[184] Commission rules currently do not preclude a fund from including other materials in the same transmission as shareholder reports. Our proposal similarly would not limit a fund's ability to provide other materials in the same transmittal as the proposed annual report. We believe this would allow funds to communicate with shareholders more efficiently through a single transmittal without detracting from our goal of concise, readable shareholder reports. However, we are proposing to require that the annual report be given greater prominence than other materials, with the exception of certain other specified disclosure materials. *See supra* footnotes 124-126 and accompanying text.

shareholder reports if they reasonably believe that shareholders will likely view the information as important.[185]

We request comment on the proposed amendments to the narrative MDFP disclosure, including:

35. Should we retain the requirement for a fund to include narrative MDFP disclosure in annual reports? Why or why not? Does this disclosure help shareholders better understand a fund's performance?

36. Should we require the narrative MDFP disclosure to summarize briefly the key factors that materially affected the fund's performance during the last fiscal year, as proposed? Would different instructions better further the Commission's goals of making narrative MDFP disclosure more concise so shareholders can understand more efficiently the key factors that affected a fund's performance? If so, what should those alternative instructions be, and how would they better further our goals?

37. As proposed, should we direct funds to use graphics or text features, such as bullet lists or tables, to present the key factors, as appropriate? Should we require funds to use specific graphics or text features to help shareholders more readily understand the key factors affecting fund performance and to create consistency among annual reports? Or is a more flexible approach, like we propose, more appropriate to allow funds to develop presentations tailored to individual funds and the needs of their shareholders?

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[185] *See infra* Section II.B.2.i.

38. Should we expressly limit the length of the narrative MDFP disclosure? If so, how (*e.g.*, word or page limits)? If not, why not?

39. Are there other ways we could require or encourage funds to provide concise narrative MDFP disclosure focused on the key factors that affected the fund's performance, beyond our proposed revisions and instruction directing funds not to include lengthy, generic, or overly broad discussions of the factors that generally affected market performance? For example, should we expressly require a discussion about the types of investments that drove fund performance, or can shareholders intuit this by reviewing the fund's investment strategy?

40. Should we amend the narrative MDFP disclosure requirement to limit or expand the examples of the types of factors that funds should discuss? For example, should we refer to other factors, beyond the current references in this requirement to relevant market conditions and the investment strategies and techniques the fund's adviser used? Should we require funds to discuss holdings that significantly contributed to or detracted from their performance during the past fiscal year (*e.g.*, by holding, industry, geographic region, or other relevant category), as many funds do today? Should we require or encourage funds to discuss other topics, such as: (1) the fund's performance in relation to its benchmark; (2) the reason for and effect of any large cash or temporary defensive position on fund performance; (3) the effect of any tax strategies, or the effects of taxes, on fund performance; or (4) whether the fund engages in high portfolio turnover and the effect of portfolio turnover on fund performance?

41. Should we incorporate concepts or requirements from management's discussion and analysis requirements that apply to annual reports of operating companies and

BDCs on Form 10-K?[186] For example, should we require or encourage funds to disclose material financial and statistical data that the fund believes would enhance a shareholder's understanding of the fund's performance? As another example, would it be appropriate to require or permit forward-looking disclosure? If so, are there any related rules or rule amendments we should adopt to facilitate this disclosure? For instance, should we require or permit a fund to disclose when a key factor that materially affected the fund's performance for the last fiscal year is not expected to materially affect the fund's future performance (*e.g.*, because the fund has sold the underlying investment or because of an unusual or infrequent event or transaction)?

42. Are there ways we could prevent funds from providing generic or boilerplate narrative MDFP disclosure that does not change much from year to year? If so, how?

43. Are there any best practices in narrative MDFP disclosure that we should encourage or require?

44. Should we permit or require additional information in the annual report that is intended to help shareholders understand fund performance, such as interviews with portfolio managers or a president's letter? Is this additional information helpful to shareholders? If so, should it be included as part of the MDFP, or in some other part of a fund's annual report?

ii. Performance Line Graph and Request for Comment on Use of Market Indexes in Performance Disclosure

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186 *See, e.g.*, Item 303 of Regulation S-K; Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information, Securities Act Release No. 10750 (Jan. 30, 2020) [85 FR 12068 (Feb. 28, 2020)].

We also are proposing to retain the requirements for the performance line graph currently included in annual reports, with certain amendments designed to improve the current presentation.[187] The line graph generally shows the performance of a $10,000 investment in the fund and in an appropriate broad-based securities market index over a 10-year period.[188] This disclosure is designed to permit a comparison of the performance of the fund with "the market" and to put the narrative discussion into perspective.[189] In addition to required information about an appropriate broad-based securities market index's performance, a fund has the option to compare its performance to other indexes, including more narrowly based indexes that reflect the market sectors in which the fund invests.[190] We continue to believe the line graph presentation helps shareholders understand how the fund has performed over a 10-year time horizon in comparison to an appropriate broad-based securities market index and other relevant indexes, as applicable.[191] Because this presentation shows performance in dollar terms, based on an initial $10,000 investment, we believe the line graph may contribute to

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187 *See* Item 27(b)(7)(ii)(A) of Form N-1A; proposed Item 27A(b)(2)(A).

188 An "appropriate broad-based securities market index" is one that is administered by an organization that is not an affiliated person of the fund, its investment adviser, or principal underwriter, unless the index is widely recognized and used. *See* Instruction 5 to Item 27(b)(7)(ii) of current Form N-1A; Instruction 6 to proposed Item 27A(d)(2) of Form N-1A.

189 *See* MDFP Adopting Release, *supra* footnote 180, at paragraph accompanying n.17.

190 *See* Instruction 6 to Item 27(b)(7)(ii) of Form N-1A; Instruction 7 to proposed Item 27A(d)(2) of Form N-1A.

191 Many investors view performance information as important for purposes of monitoring a fund investment. *See supra* footnote 48 and accompanying text. With respect to the performance line graph in particular, one study found that 55% of surveyed investors ranked the line graph and table of fund's performance in the top three most important categories of annual report information. Approximately 49% of surveyed investors classified this information as "absolutely essential for any investor." *See* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 49, 51.

shareholders' understanding of fund performance—because some individuals may find it easier to assess dollar figures than percentages—and complements the percentage-based presentation in the average annual total returns table.[192] We also believe the line graph helps illustrate the variability of a fund's returns (*e.g.*, whether the fund's returns have been volatile or relatively consistent from year to year) and therefore provides shareholders with some information about the risks of their fund investment. Moreover, the line graph presentation may help investors understand the general benefits of long-term investments (*e.g.*, compound interest). We recognize potential critiques that the line graph may not show the variability of a fund's returns as clearly as certain other presentations (such as the bar chart we require in fund prospectuses that shows annual total returns as a percentage of an investment).[193] However, given the other benefits of the line graph—particularly that it presents performance in dollar

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192 *See infra* Section II.B.2.c.iii (discussing total returns table). To the extent that a fund chooses to provide tools to help shareholders better understand online or mobile presentations of annual reports, the ability to customize the investment amount and investment time horizon could be areas that lend themselves to add-on functionality that funds may wish to build into these presentations. If a fund provides such tools, the default presentation would be required to be the values that the proposed Form N-1A requirements prescribe (*e.g.*, an initial investment of $10,000 would be the default presentation for the line graph, although the tools would allow a shareholder to increase or reduce this investment amount). *See* discussion at *infra* Section II.B.4 and *infra* footnote 338 and accompanying text.

193 *See* Item 4(b)(2)(ii) of Form N-1A (requiring a bar chart in a fund's prospectus that shows a fund's annual total returns for each of the last 10 calendar years (or the life of the fund, if shorter). Because the prospectus bar chart shows the percentage of returns for each year, it may more clearly show variations in a fund's returns than the line graph, which shows the cumulative performance of a $10,000 investment. For example, assume a fund experienced returns of negative 10% in year 1 and year 9. The bar chart would clearly show a negative 10% return in each of these years. However, in the line graph presentation, the negative 10% return in year 1 could appear as a much smaller change than a negative 10% return in year 9 (*e.g.*, a $1,000 decrease on a $10,000 investment in year 1 versus, for example, a $3,000 decrease in year 9 if the account value had increased to $30,000 in year 8).

terms that may be easier for some shareholders to assess—we are proposing to retain the line graph presentation.

We are proposing to retain the current requirement to present fund performance in relation to an appropriate broad-based securities market index because we continue to believe that performance disclosure without relevant context showing market performance would not provide the information that shareholders need to understand how their fund performed. For example, performance disclosure without this type of context would not give shareholders a sense of how their investments might have performed had their money been invested elsewhere. However, we request comment on this proposed requirement below.

We also recognize potential critiques about the use of market indexes in presenting performance information. These include critiques that index licensing fees can be costly to funds (and, indirectly, to fund investors) and that, depending on the index selected, comparing a fund's performance against the index in some cases may be less effective in helping shareholders understand the fund's performance and risks. For example, because funds have discretion to choose an appropriate broad-based securities market index, a fund may choose an index that it is more likely to outperform to make it look like the fund is doing better than the corresponding market (for instance, this could occur if a bond fund selects a more conservative bond market index). In addition, index providers can experience errors or other difficulties in constructing, computing, or maintaining indexes. For example, an index that includes companies in emerging and frontier markets may experience data or computational

errors if there is less information publicly available about these companies due to differences in regulatory, accounting, auditing, and financial recordkeeping standards.[194]

While we propose largely to maintain the current line graph presentation and associated instructions, we are proposing three revisions to the instructions associated with the line graph. First, we propose to add a new instruction to clarify the scope of required disclosure in an annual report that covers multiple classes.[195] The proposed instruction would require a fund to present performance information for at least one class in the line graph (in addition to the required information for an appropriate broad-based securities market index). The proposed instruction provides funds with discretion to determine which class or classes to present in the line graph, subject to certain limitations that are consistent with existing limitations on prospectus performance presentations.[196]

Second, we propose to remove an instruction that allows the line graph to cover periods longer than the past 10 fiscal years. We are concerned that this current instruction may introduce variability that reduces the benefits of the line graph. For example, as the time

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194 *See* SEC Chairman Jay Clayton, PCAOB Chairman William D. Duhnke III, SEC Chief Accountant Sagar Teotia, SEC Division of Corporation Finance Director William Hinman, SEC Division of Investment Management Director Dalia Blass, *Emerging Market Investments Entail Significant Disclosure, Financial Reporting and Other Risks; Remedies are Limited* (Apr. 21, 2020), *available at* https://www.sec.gov/news/public-statement/emerging-market-investments-disclosure-reporting.

195 *See* Instruction 13(a) to proposed Item 27A(d)(2).

196 *See* current Instruction 3 to Item 4(b)(2) of Form N-1A (allowing a fund to select which class to include (*e.g.*, the oldest class, the class with the greatest net assets) if the fund: (1) selects the class with 10 or more years of annual returns if other classes have fewer than 10 years of annual returns; (2) selects the class with the longest period of annual returns when the classes all have fewer than 10 years of returns; and (3) if the fund provides annual total returns for a class that is different from the class selected for the most immediately preceding period, it explains in a footnote the reasons for selecting a different class).

period on the line graph lengthens, any volatility of the fund's returns may become harder to identify because the scale of the line graph typically would need to cover a wider range of account values (*e.g.*, a scale of $0 to $1,000,000 rather than $0 to $30,000) that reflects growth in the account. This increase in scale generally would make any particular increase or decrease in account value (*e.g.*, an increase or decrease of $3,000) harder to identify. Further, this current instruction may result in performance presentations that could give rise to unrealistic investor expectations. For funds in existence for a long period of time (*e.g.,* 40 years), a line graph that shows the performance of a $10,000 investment at the outset of the fund may not be particularly relevant for the average shareholder, who likely has not been invested in the fund for such an extended period of time. The line graph also could show an ending account value that is substantially higher than the value of an initial $10,000 investment at the end of a 10-year period (*e.g.*, an ending account value of $1,000,000 versus an ending account value of $25,000). While we propose to limit the line graph presentation to the fund's last 10 fiscal years, funds may include similar presentations covering longer periods of time on their websites or in other marketing materials.

Third, we propose to clarify the definition of an appropriate broad-based securities market index. Currently, both a fund's prospectus and annual report must compare the fund's performance to an "appropriate broad-based securities market index."[197] The Commission has described such an index as "one that provides investors with a performance indicator of the overall applicable stock or bond markets, as applicable," while also stating that a fund would

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[197] *See* Item 4(b)(2)(iii) and Instruction 5 to Item 27(b)(7) of Form N-1A.

have "considerable flexibility in selecting a broad-based index that it believes best reflects the market(s) in which it invests."[198] Our staff has observed varying practices with respect to the benchmarks funds use. Some funds, for example, disclose their performance against a benchmark index that may not provide a performance indicator of "the overall applicable stock or bond markets," such as an index tied to a particular sector, industry, geographic location, asset class, or strategy (*e.g.*, growth or value indexes).[199] While indexes based on narrow segments of the market may be useful for comparison purposes, we believe that all funds should compare their performance to the overall market.

Therefore, we are proposing to include language that clarifies that a "broad-based index" is one that represents the overall applicable domestic or international equity or debt markets, as appropriate.[200] This clarifying language would continue to provide a fund with flexibility in selecting a broad-based index that the fund believes best reflects the market(s) in which it invests. The form instructions also would continue to encourage a fund to include narrower indexes that reflect the market segments in which the fund invests in its performance presentation along with its appropriate broad-based securities market index.[201] If a fund

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198 In 1993, the Commission adopted rules requiring funds to compare their performance to a "broad-based index in order to provide investors with a benchmark for evaluating fund performance that affords a greater basis for comparability than a narrow index would afford." *See* MDFP Adopting Release, *supra* footnote 180, at paragraph preceding nn.19-20, and n.21 and accompanying paragraph.

199 When the Commission adopted the requirement to compare a fund's performance against an appropriate broad-based securities market index, the Commission clarified, "An index would not be considered to be broad-based if it is composed of securities of firms in a particular industry or group of related industries." *See id.* at n.21.

200 *See* proposed Instruction 6 to proposed Item 27A(d)(2) of Form N-1A.

201 *See* proposed Instruction 7 to proposed Item 27A(d)(2) of Form N-1A.

invests in both equity and debt securities, such as a balanced fund, the fund may include more than one appropriate broad-based securities market index. The fund may also include a blended index—one that combines the performance of more than one index, such as equity and debt indexes—as an additional index to supplement the appropriate broad-based securities market index(es) that the fund includes. The proposed amendments to the definition of an appropriate broad-based securities market index would affect performance presentations in fund prospectuses, as well as fund annual reports.[202]

We request comment on the proposed line graph presentation and on the use of market indexes more generally in performance presentations, including the following:

45. Should we require the annual report to include the performance line graph, as proposed? Why or why not? Should we modify the proposed requirements for the line graph? For example, should the line graph show returns in terms of percentages instead of dollar values? Are there other presentations that would help shareholders better understand a fund's performance over the past 10 years (or for the life of the fund, if shorter) and the variability of its returns?

46. We understand that the line graph can be difficult to read in black and white and may not fully illustrate volatility in the early years displayed in the graph.[203] Are there other performance presentations that could better address these issues than the proposed approach and that would retain the benefits of the line graph presentation to shareholders? For example, should we replace the line graph with something similar to the bar chart required in

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202 *See* proposed Item 4(b)(2)(iii) of Form N-1A.

203 *See supra* footnote 193.

fund prospectuses, which may be easier to read in black and white?[204] Would this alternative presentation better show year-to-year volatility? Is the risk/return bar chart easy for shareholders to understand, or do shareholders prefer the line graph presentation that shows returns in terms of dollars rather than percentages? If we were to replace the line graph with something similar to the risk/return bar chart, should that alternative presentation present returns in terms of dollars instead of percentages?

47. Should we require the line graph to cover at least one class of a fund when a single shareholder report covers multiple classes, as proposed? Alternatively, should the graph be limited to one class or required to cover more than one class? How can we make sure that the line graph remains readable but provides sufficient information to help shareholders understand fund performance and risks?

48. Should we no longer allow funds to provide a line graph that covers periods longer than 10 years in their annual reports, as proposed? What are the benefits and drawbacks of permitting line graph presentations that cover more than 10 years, if a fund's registration statement has been effective for more than 10 years? If we were to continue to permit the line graph to cover a period of time that is longer than 10 years, should we limit the time period that the graph may cover in any way (*e.g.*, limit the time period to no more than 20 years)?

49. Should we require funds to provide information in shareholder reports about the performance of an appropriate broad-based securities market index, as proposed? What are the advantages and disadvantages of this information? Does information about an appropriate

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[204] *See* Item 4(b)(2)(ii) of Form N-1A.

broad-based securities market index's performance provide investors with a helpful performance indicator of the overall relevant market?[205] If so, do these benefits justify the burdens, including costs to the fund (and ultimately its shareholders) of paying one or more index providers to allow the fund to include this information in the fund's disclosure? Is cost a significant factor for funds when they determine which, and how many, indexes to include in their shareholder reports? How are these costs assessed (for example, are they assessed on a per-disclosure basis or on some other basis)?

50. Should we modify the definition of "appropriate broad-based securities market index," as proposed? If not, why not? If so, is the proposed definition appropriate, or should we modify it in any way? For example, should we permit funds to use blended indexes only as secondary indexes, as proposed (as an index could be "broad-based" only if it represents the overall applicable equity or debt markets), or should we permit funds to use these indexes as primary appropriate broad-based securities market indexes under certain circumstances? If we were to permit this, what if any conditions would be appropriate to ensure that the index remains "broad-based"? For example, should there be requirements limiting a fund to the number of indexes that could be blended for this purpose (*e.g.*, 2), or the types of indexes that could be blended? Similarly, should we modify current requirements that permit funds to use non-securities market indexes only as secondary indexes, and not as appropriate broad-based securities market indexes? Are there concerns with certain funds using blended indexes or non-securities market indexes as secondary, rather than primary, indexes, such as concerns

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[205] *See* MDFP Adopting Release, *supra* footnote 180, at n.21 and accompanying text.

about investor understanding or costs associated with disclosing multiple indexes (*e.g.*, index licensing fees)? Do blended or non-securities market indexes provide an appropriate point of comparison for an investor to evaluate his or her fund's performance? If we were to allow blended indexes or non-securities market indexes as a primary index, how could we tailor this approach to make sure that investors receive a performance indicator of the overall applicable market?[206] Is the proposed definition clear? For example, is it clear that an index composed of securities of firms in a particular industry or group of related industries would not be broad-based?

51. Are there other changes we should make to the definition of appropriate broad-based securities market index, or to the framework for providing index performance more generally? For example, are there ways we could facilitate an investor's ability to understand the relevance of an appropriate broad-based securities market index, while maintaining funds' flexibility to select an appropriate and cost-effective benchmark?[207] As another example, are there ways we could address concerns that some funds may choose an index for the purpose of making the fund's performance look better? Are there other instructions or guidance we could provide regarding the selection of an appropriate broad-based securities market index?

52. We are proposing to amend the definition of appropriate broad-based securities market index for purposes of Form N-1A. Should the same amended definition apply to fund

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206 *See* MDFP Adopting Release, *supra* footnote 180, at n.21 and accompanying text.

207 *See, e.g.*, Fowler Comment Letter ("Compare to a market measure I understand, and the asset class the fund holds."); Ewing Comment Letter ("Compare against a market measure I know, like the S&P 500, not some obscure thing I never heard of."); Frank W. Comment Letter; *see also* ICI Comment Letter I (requesting that the Commission be mindful of, and sensitive to, the fees and costs associated with including index information in a fund's prospectus).

prospectuses and fund shareholder reports, as proposed? If not, why not? Should we make corresponding amendments to the definition of appropriate broad-based securities market index in Form N-2 with respect to MDFP requirements for registered closed-end funds?[208] Why or why not?

53. Should funds have discretion to provide information in shareholder reports about the performance of more narrowly based indexes that reflect the market sectors in which the fund invests, as proposed? Is the information these indexes provide helpful to shareholders, or does additional index performance information make the disclosure more difficult for shareholders to understand?

54. Should index providers be required to meet certain governance, due diligence, or other similar standards if an index's performance will be included in fund disclosure? Why or why not? If we imposed any such requirement, how would funds expect to determine whether those standards have been met?

55. Are there alternative measures that we should permit or require funds to use to provide investors with comparative information about market performance, instead of an appropriate broad-based securities market index or more narrowly based indexes that reflect the market sectors in which the fund invests? If so, what alternative measures (*e.g.*, the rate of inflation or a risk free rate), and why are those measures appropriate and preferable to the use of indexes?[209]

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[208] *See* Instruction 4.g(2)(F) to Item 24 of Form N-2, as amended by Closed-End Fund Offering Reform Adopting Release, *supra* footnote 128.

[209] For example, some market participants consider the 10-year U.S. Treasury note rate as a risk-free rate.

### iii. Performance Table

We are proposing to retain the current requirement that funds' annual reports include a table presenting average annual total returns for the past 1-, 5-, and 10-year periods, although we are proposing amendments to require three pieces of additional information. Specifically, the proposal would require that the table include: (1) the average annual total returns of an appropriate broad-based securities market index; (2) the fund's average annual total returns without sales charges (in addition to current disclosure that shows returns reflecting applicable sales charges); and (3) average annual total returns for each class that the report covers, in each case for the past 1-, 5-, and 10-year periods.[210] The average annual total returns table is designed to assist shareholders in comparing the performance of different funds.[211] We also believe that the table complements the line graph to help shareholders evaluate a fund's performance and risks.

The amendments we are proposing to the average annual total returns table are designed, in part, to better conform the table to a similar presentation that funds include in their prospectuses. Like the current prospectus disclosure regarding average annual total returns, we propose to require funds to include in the shareholder report table information

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210 *See* Item 27(b)(7)(ii)(B) of Form N-1A; proposed Item 27A(d)(2)(ii) of Form N-1A. Item 27(b)(7)(ii)(B) of Form N-1A currently requires the following:

"In a table placed within or next to the graph, provide the Fund's average annual total returns for the 1-, 5-, and 10-year periods as of the end of the last day of the most recent fiscal year (or for the life of the Fund, if shorter), but only for periods subsequent to the effective date of the Fund's registration statement. Average annual total returns should be computed in accordance with Item 26(b)(1)."

211 *See* MDFP Adopting Release, *supra* footnote 180, at paragraph accompanying n.26. We recognize, however, that the table has certain limitations with respect to fund comparisons because it reflects fiscal year data and funds can have different fiscal year periods.

about the average annual total returns of an appropriate broad-based securities market index.[212] A fund would provide the index's returns for the same periods as its own returns (*e.g.*, 1-, 5-, and 10-year periods). We understand that many funds already provide this information in their annual reports. We believe that requiring all funds to provide this information would help shareholders better understand a fund's performance and risks in the context of the broader market.[213] We also believe that proposing this change would be beneficial because fund shareholders may no longer receive annual prospectus updates as a result of our proposed amendments to the prospectus delivery framework for existing fund shareholders.[214] Consistent with the current prospectus performance presentation, the proposed amendments would permit funds to include returns information for one or more other relevant indexes, such as a more narrowly based index that reflects the market sectors in which the fund invests.[215] We are proposing to permit funds to include more than one index in the table because we understand that in some cases this approach may help shareholders understand how the fund's performance compared to, for example, performance of both the

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212 *See* Item 4(b)(2)(iii) of Form N-1A (requiring that a fund's prospectus include a table showing its average annual total returns for 1-, 5-, and 10-calendar year periods, along with the returns of an appropriate broad-based securities market index for the same periods). The proposed amendments to the performance table would use the same amended definition of an appropriate broad-based securities market index as the proposed line graph presentation. *See supra* paragraph accompanying footnote 197.

213 *See* 1998 Form N-1A Prospectus Amendments, *supra* footnote 151, at text accompanying n.69 (discussing the purpose of the required prospectus disclosure regarding the average annual total returns of an appropriate broad-based securities market index).

214 *See infra* Section II.E.

215 *See* Instruction 2(b) to Item 4(b)(2) of current Form N-1A; Instruction 2(b) to proposed Item 4(b)(2) of Form N-1A (amending the cross reference to the description of other more narrowly based indexes from Instruction 6 to current Item 27(b)(7) to Instruction 7 to proposed Item 27A(d)(2)); Instruction 7 to proposed Item 27A(d)(2) of Form N-1A.

broader market and the market sector in which the fund invests. These proposed amendments are designed to help shareholders more easily evaluate a fund's performance and risks relative to the market and to better align the information in the table with the current line graph presentation so a shareholder has contextual information to help assess both year-over-year returns and average annual returns over set periods. At the same time, we recognize concerns about the use of indexes in performance presentations, and we are seeking comment on our proposed approach.[216]

We further propose to modify the average annual total returns table to require funds to separately provide the average annual total returns with and without sales charges, as applicable.[217] Currently, the table is only required to include average annual total returns that reflect sales charges.[218] We believe comparative information about average annual total returns with and without sales charges may help shareholders better understand the impact of sales charges on the returns of their investments. We also believe that additional information

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216 *See supra* Section II.B.2.c.ii.

217 *See* proposed Item 27A(d)(2)(ii) of Form N-1A. One commenter on the Fund Investor Experience RFC prepared a mock summary shareholder report that included average annual total returns shown with and without sales charges, as applicable. *See* ICI Comment Letter I. Under the proposal, a fund that does not impose sales charges would only provide a single set of average annual total returns figures (*i.e.*, returns without sales charges).

218 *See* Item 27(b)(7)(ii)(B) of Form N-1A (requiring average annual total returns computed in accordance with Item 26(b)(1), which reflects sales charges in the calculation of returns). In connection with the proposed amendment, we propose to add a new computation instruction to explain that funds should calculate average annual total returns without sales charges in accordance with Item 26(b)(1) of Form N-1A, except the fund should not deduct sales charges as otherwise described in the instructions to that item. To provide a fund's 1-year annual total return without sales charges, a fund would use the same 1-year total return figure reflected in its most recent audited financial highlights. *See* Instruction 5 to proposed Item 27A(d)(2) of Form N-1A.

about average annual total returns without sales charges may help shareholders better compare the fund's returns to that of a relevant index.[219]

We also propose to add a new instruction for the average annual total returns table to require a fund to provide average annual total returns information for each class the shareholder report covers.[220] This is consistent with the prospectus average annual total returns table, which must reflect average annual total returns for every class a prospectus covers.[221] We believe it is important for shareholders to receive performance information that directly relates to the class in which they invest. Because each class can have different expenses that affect the class's returns, performance information for each class would allow a shareholder to understand the performance of his or her investment better and to compare performance among the classes the report covers.[222] While the proposed shareholder report expense disclosure would include class-specific performance information for the reporting period, the average annual total returns table would provide class-specific performance information over a longer time period. Further, although the line graph in the annual report similarly provides longer-term performance information, it is not currently required to include information for each class (nor are we proposing to require this, because we recognize that

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219 Further, the proposed requirement to present the fund's annual total return without sales charges for the last fiscal year would align with audited information shareholders currently receive in the financial highlights section of shareholder reports. *See* Item 27(b)(2) of Form N-1A; Instruction 3 to Item 13(a) of Form N-1A. We understand that some shareholders review financial highlights information when assessing and monitoring their fund investments. *See, e.g.*, *supra* footnote 52.

220 *See* Instruction 13(b) to proposed Item 27A(d)(2) of Form N-1A.

221 *See* Instruction 3(c)(i) to Item 4(b)(2) of Form N-1A.

222 *See* 1998 Form N-1A Prospectus Amendments, *supra* footnote 213, at text accompanying n.66.

additional lines in the graph for each class may make the graph difficult to read). Additionally, under the proposal, shareholders generally may not receive annual prospectus updates, which include class-specific returns, and would instead receive prompt notices of certain material changes that generally would not include this information. As a result of these considerations, we believe the average annual total returns table in the shareholder report should include information for each class the report includes.

Currently, funds must include a statement accompanying the line graph and table to the effect that past performance does not predict future performance, and that the line graph and table presentations do not reflect taxes that a shareholder would pay on fund distributions or redemptions.[223] We propose to simplify the statement about past performance. Specifically, under the proposed amendments, a fund would be required to include a statement to the effect that the fund's past performance is not a good predictor of how the fund will perform in the future.[224] We propose to require funds to use text features to make this statement noticeable and prominent through, for example, graphics, larger font size, or different colors or font styles.[225] Under the proposal, funds would continue to be required to state that the disclosed performance information does not reflect the deduction of taxes that a shareholder would pay

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223 *See* Item 27(b)(7)(ii)(B) of Form N-1A.

224 *See* proposed Item 27A(d)(2)(iii)(A) of Form N-1A. We also propose to make a conforming change to similar language that must appear in the prospectus. *See* proposed amendments to Item 4(b)(2) of Form N-1A.

225 *See* proposed Item 27A(d)(2)(iii)(A) of Form N-1A.

on fund distributions or the redemption of fund shares to alert investors to these tax consequences.[226]

Additionally, we propose to add a new instruction allowing funds to add brief additional disclosure that would contextualize the line graph and average annual returns table they include in their shareholder reports. Specifically, the proposed instruction provides that if a material change occurred to the fund during the relevant performance period, such as a change in investment adviser or a change to the fund's investment strategies, the fund may include a brief legend or footnote to describe the material change and when it occurred.[227] We believe this additional disclosure could help shareholders understand potential changes in fund performance related to material fund changes that have occurred during the relevant performance period.[228] Under the proposal, funds would have discretion to determine when to disclose information about a prior material change to a fund in connection with its performance presentation. We are proposing a discretionary approach, instead of requiring funds to include this disclosure for all material changes, because we recognize that some material changes to a fund may not affect a fund's performance, or may have only an insignificant effect on performance. Although a fund generally would be able to use discretion

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226 *See* proposed Item 27A(d)(2)(iii)(B) of Form N-1A.

227 *See* Instruction 14 to proposed Item 27A(d)(2). In addition, consistent with current Form N-1A requirements, if a fund uses an index in a shareholder report that is different from the index used for the immediately preceding reporting period, the later report would need to explain the reason(s) for the change and disclose the returns of both the new and former indexes. *See* Instruction 7 to Item 27(b)(7)(ii) of Form N-1A; Instruction 8 to proposed Item 27A(d)(2) of Form N-1A.

228 *See* Blanchard Comment Letter (suggesting that identifying fund changes that may have changed a fund's performance would improve current fund performance presentations).

to determine when to disclose a prior material change in connection with its performance presentation, a fund would need to disclose information about such a change if, absent that disclosure, the fund's performance presentation would otherwise be misleading.[229]

While we believe it is beneficial for shareholders to receive information about a fund's performance in the annual report each year, we understand that funds provide more current, ongoing performance information through other mechanisms, such as their websites. We are proposing to require funds that provide updated performance information through widely accessible mechanisms, such as fund websites, to include a statement in the shareholder report directing shareholders to where they can find this information.[230] If a fund were to include such a statement, it also would be required to provide a means of facilitating access to the updated performance information, including, for example, a hyperlink to where the information may be found if the shareholder report is provided electronically or a URL address or QR code if the shareholder report is delivered in paper format.[231]

We request comment on the proposed average annual total returns table and associated amendments, including the following:

56. Should the annual report include the average annual total returns table, as proposed? Why or why not? Should we modify the proposed requirements for the table? If so, how?

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229 *See, e.g.*, rule 8b-20 under the Investment Company Act [17 CFR 270.8b-20].

230 *See* Instruction 15 to proposed Item 27A(d)(2).

231 *See* Instruction 9 to proposed Item 27A(a); *see also infra* footnotes 342 and 343 and accompanying paragraph. Consistent with this instruction, a fund could provide a direct link to the updated performance information or a link to a central site that provides a direct link to the fund's updated performance information.

57. Should we require funds to include the average annual total returns of an appropriate broad-based securities market index and allow funds to include the returns of additional indexes in the average annual total returns table, as proposed, and as funds currently do in their prospectuses? Should we make any changes to this aspect of the proposal? Please explain.

58. Should we require funds to include the average annual total returns of each class that the annual report covers, as proposed, and as funds currently do in their prospectuses? Should we modify this aspect of the proposal? For example, should we only require average annual total returns for one class or for a set number of classes? If so, should we provide funds with flexibility for determining which class to disclose in the average annual total returns table, similar to the proposed instruction for the line graph, or should we take a different approach?[232] Are there ways to improve the design or presentation of the table, particularly when covering multiple classes?

59. Should we modify the average annual total returns table to require funds to separately provide the average annual total returns with and without sales charges, as proposed? Would requiring information about average annual total returns without sales charges be helpful to shareholders, or would this information make the table too confusing or complex? Have we provided sufficient calculation instructions for funds to determine average annual total returns without sales charges? If not, what additional information do funds need for purposes of this calculation?

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[232] *See supra* footnote 196 and accompanying text.

60. Should we, as proposed, modify the statement that currently must accompany the line graph and table indicating that past performance does not predict future performance and retain the statement that the line graph and table presentations do not reflect taxes that a shareholder would pay on fund distributions or redemptions? Are there other ways we could make the statement about past performance more understandable for shareholders? Is the statement clarifying that performance does not reflect the deduction of taxes helpful to shareholders, or is it unnecessary boilerplate? If it is not helpful to shareholders, should we modify or remove this language?

61. Should we, as proposed, allow a fund to include a brief legend or footnote to its line graph and average annual total returns table to describe a material change, such as a change in investment adviser or a change to the fund's investment strategies, that occurred to the fund during the relevant period? Would this provision provide shareholders with useful contextual information? If so, should we make the disclosure mandatory? If not, why not? Are there ways we could improve the utility or design of this provision? For example, are there ways we should modify the provision to limit any risk that funds might attempt to justify fund losses by referring to an unrelated change to the fund? Is the meaning of "material change" in this provision sufficiently clear, or do funds need more guidance to help them determine whether a change is material for purposes of this provision? Should we modify the standard for determining the types of changes that funds can disclose in connection with their shareholder report performance presentations? For example, rather than refer to material changes, should we identify specific types of changes that funds can disclose? If so, what types of changes should the provision cover (*e.g.*, should it be limited to changes in investment advisers and changes in principal investment strategies, or should it include other

changes)? If we retain a principles-based standard, should we use a different standard than material changes (*e.g.*, significant changes)? Should we only allow a "brief" legend or footnote, as proposed?

62. Should we require funds that provide updated performance information through widely accessible mechanisms, such as fund websites, to include information in their annual reports directing shareholders to where they can find updated performance information, as proposed? Should we modify or clarify this requirement in any way? Should we instead permit, but not require, a fund to include this information in its annual report? As proposed, should we require funds that provide updated performance information on their websites to inform shareholders of this updated information in their annual shareholders reports and to direct shareholders to where the updated performance information is located? Should we require all funds to provide updated performance information on their websites? If so, what performance information? How often should it be updated?

iv. Other MDFP Amendments

We propose to simplify the current requirement that a fund discuss in its annual report the effect of any policy or practice of maintaining a specified level of distribution to shareholders (a "stable distribution policy") on the fund's investment strategies and per share net asset value during the last fiscal year, as well as the extent to which the fund's distribution policy resulted in distributions of capital.[233] The current disclosure requirement is meant to

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[233] *See* Item 27(b)(7)(iii) of Form N-1A (requiring a fund to "[d]iscuss the effect of any policy or practice of maintaining a specified level of distributions to shareholders on the Fund's investment strategies and per share net asset value during the fiscal year [as well as] the extent to which the Fund's distribution policy resulted in distributions of capital").

give shareholders a clearer picture of whether a fund had to distribute capital, as well as profits, to maintain its distribution rate.[234] Under the proposed amendments, a fund that has a stable distribution policy and that was unable to maintain the specified level during the past fiscal year would need to disclose this.[235] We also propose to maintain disclosure concerning distributions that resulted in returns of capital.[236] By modifying this provision to focus on circumstances when a fund was unable to meet the specified level of distribution in its stable distribution policy or had distributions that resulted in returns of capital, the proposal is designed to result in disclosure that is more meaningful to shareholders than the current requirement. In particular, we believe that the proposed disclosure about a fund's inability to maintain a specified level of distribution would be important to shareholders in funds that have stable distribution policies because they typically expect to receive regular distributions. As a result, the fund's inability to meet the specified level of distributions may affect a shareholder's investment decision (*e.g.*, whether to continue to hold the fund). In addition, we believe that simplifying the language of this requirement, as proposed, could result in disclosure that is more understandable to shareholders because funds tend to use language in their disclosures that tracks the language of Commission form requirements. As most funds do not have stable distribution policies, we do not anticipate that this proposed disclosure requirement would add to the length of most shareholder reports.

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234 *See* MDFP Adopting Release, *supra* footnote 180, at Section I.C.4.

235 *See* proposed Item 27A(d)(3) of Form N-1A.

236 *See id*.

The Commission recently adopted amendments to limit the requirement that ETFs provide premium and discount information in their annual reports to only those ETFs that do not provide premium and discount disclosure on their websites in accordance with 17 CFR 270.6c-11 [Investment Company Act rule 6c-11].[237] We are not proposing any amendments to this annual report requirement beyond a technical amendment to clarify that it only applies to ETFs.[238] We believe that most ETFs will provide premium and discount information on their websites instead of in their annual reports.[239]

We request comment on the proposed amendments to the MDFP disclosure regarding stable distribution policies and on the ETF premium and discount information that would remain in the annual report, as well as on MDFP disclosure more generally, including:

63. Should we modify the requirement that funds discuss the effects of any stable distribution policy under current Item 27(b)(7)(iii) in their annual reports, as proposed? Would the proposed requirement provide meaningful information to shareholders that is not otherwise available? Should we instead remove any specific disclosure requirements related to stable distribution policies? If we do not require this type of information in annual reports, should we require funds to make it available elsewhere?

64. Should we continue to require ETFs that do not provide premium and discount information on their websites in accordance with Investment Company Act rule 6c-11 to

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237 *See* Adopting Release, *supra* footnote 75; Item 27(b)(7)(iv) of Form N-1A.

238 *See* proposed Item 27A(d)(4) of Form N-1A.

239 *See* ETF Adopting Release, *supra* footnote 75, at paragraph accompanying n.499 (stating that the Commission believes that most ETFs not relying on rule 6c-11 will choose to comply with the website disclosure requirements in that rule).

include premium and discount information in their annual reports? If not, where should they disclose this information?

65. Money market funds currently are not required to provide MDFP disclosure in their annual reports because the Commission has previously noted that the problems that MDFP disclosure seek to address with respect to investor understanding of performance do not appear to exist with respect to money market funds.[240] The proposal similarly would not require money market funds to provide MDFP disclosure. Should we require some or all money market funds to provide performance information in their shareholder reports? For example, should we require money market funds to include performance information similar to what they must disclose in their prospectuses (*e.g.*, 7-day yield, average annual total returns table, and performance bar chart) or similar to what other funds must disclose in their annual reports (*e.g.*, performance line graph)? If so, should these requirements apply to all money market funds or to a subset of money market funds, such as only money market funds that rely on proposed rule 498B (*i.e.*, whose shareholders receive prompt notice of certain material changes to the fund, with online access to the prospectus)?

66. Are there other changes we should make to current MDFP disclosure requirements? Please explain.

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240 *See* MDFP Adopting Release, *supra* footnote 180, at Section I.C.5 (noting, however, that money market funds retain the option of providing investors with a discussion of their performance, including illustrative line graphs).

d. Fund Statistics

We are proposing to require a fund to disclose certain fund statistics in its annual report, including the fund's: (1) net assets, (2) total number of portfolio holdings, and (3) portfolio turnover rate. We are also proposing to permit a fund to disclose any additional statistics that the fund believes would help shareholders better understand the fund's activities and operation during the reporting period (*e.g.*, tracking error, maturity, duration, average credit quality, or yield).[241] Based on information we received in response to the recent Fund Investor Experience RFC, it is our understanding that investors prefer succinct fund disclosures in graphical format, and they are less likely to review information presented in long narratives.[242] We believe that permitting funds to provide key fund statistics in a user-friendly format could enable funds to provide more meaningful information to investors, and encourage investors to focus on the more significant factors in evaluating the fund's operations.

We are proposing to require funds to include their net assets as of the end of the reporting period because we believe this disclosure would provide important context for other required information in the shareholder report.[243] Under our proposal, funds would be

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241 *See* proposed Item 27A(e).

242 *See* Broadridge Comment Letter I (commenter conducted survey showing that investors are more likely to review fund disclosures if they are delivered in a summary format); *see also* ICI Comment Letter I (encouraging the Commission to allow funds to produce summary shareholder reports that are succinct and informative).

243 Because the measure of a fund's net assets is included in the fund's audited financial statements, the fund would be required to use or derive such statistic from the fund's audited financial statements. *See* proposed Instruction 3 to proposed Item 27A(e).

If a fund provides tools to help shareholders better understand online or mobile presentations of annual reports, it may wish to provide the ability for shareholders to refer to updated net

required to provide a graphical presentation of holdings.[244] A fund would have the flexibility to provide this graphical presentation either as a percentage of the fund's net asset value, total investments, or investment exposures.[245] We believe that knowing the fund's net assets would allow a shareholder to appreciate better the impact of each holding on the overall performance of the fund.

Similarly, we are proposing to require funds to include the total number of portfolio holdings as of the end of the reporting period.[246] Investors historically have viewed information about a fund's holdings as important to their investment decision process.[247] Many funds currently voluntarily provide the number of fund holdings on their websites, but Commission rules do not require them to do so. We believe that, together with the graphical

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assets when reviewing these presentations, so they are seeing current information. Because the measure of a fund's net assets that would appear in the annual report would be derived from the fund's audited financial statements, the ability to update this statistic (which updates would presumably not be based on audited financial statements) would have to be an add-on functionality, and not a replacement for the end-of-period statistic that would appear on online presentations. For example, a fund could include a pop-up box attached to the fund's net assets information showing the fund's net assets as of a more recent specified date. *See* discussion at *infra* Section II.B.4; *see also infra* footnote 338 and accompanying text (discussing the proposed instruction requiring that the default presentation that any electronically presented annual report uses must be the value that the applicable form requirement prescribes).

244 *See infra* footnote 259. Because we are proposing to require that the fund statistics section appear adjacent to the graphical representation of holdings in the annual report, the net assets statistic would provide shareholders with relevant context for the holdings information that we believe would be helpful to shareholders. *See infra* Section II.B.3.

245 *See infra* text accompanying footnote 264.

246 Because all portfolio holdings are included in a fund's audited financial statements, the fund would be required to use or derive this statistic from the fund's audited financial statements. *See* proposed Instruction 3 to proposed Item 27A(e) of Form N-1A; *see also supra* footnote 243 (discussing the use of online tools to supplement, rather than replace, statistics that are derived from a fund's audited financial statements).

247 *See e.g.,* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 9 (noting that 45% of investors deemed a fund's portfolio holdings as "absolutely essential

holdings information and net assets, knowing the number of a fund's holdings could help investor to understand better the fund's diversification, which could in turn provide insight into the fund's susceptibility to market fluctuations.[248] Accordingly, to help ensure that an investor has access to information about the total number of fund holdings and to help contextualize other information that funds disclose, we are proposing that funds include that information as of the end of the reporting period in their annual reports.

Finally, we are proposing to require funds to include their portfolio turnover rate as of the end of the reporting period.[249] A higher portfolio turnover rate generally indicates higher transaction costs and may result in higher taxes.[250] Therefore, we believe that a fund's portfolio turnover rate may provide shareholders with a more complete view of the costs associated with investing in the fund.

Besides requiring funds to include their net assets, number of fund holdings, and portfolio turnover rate, we are providing flexibility for funds to disclose additional fund

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information to any investor").

248 *See, e.g.* Morningstar's Investing Glossary, *available at* http://www.morningstar.com/InvGlossary/number_of_holdings_in_portfolio.aspx (noting that number of holdings information is meant to be a measure of portfolio risk because the lower the number of portfolio holdings, "the more concentrated the fund is in a few companies or issues, and the more the fund is susceptible to the market fluctuations in these few holdings").

*But see* Concentrate on Concentration, FINRA Weekly Update, *available at* https://www.finra.org/investors/learn-to-invest/advanced-investing/concentration-risk (stating that a portfolio can be subject to concentration risk even when assets are invested in many different holdings).

249 Because a fund's portfolio turnover is included in the fund's audited financial highlights, the fund would be required to use or derive the portfolio turnover from the fund's audited financial highlights. *See* Instruction 3 to proposed Item 27A(e); *see also supra* footnote 243 (discussing the use of online tools to supplement, rather than replace, statistics that are derived from a fund's audited financial statements).

250 *See supra* footnote 558.

statistics if they are reasonably related to a fund's investment strategy. In general, funds would be limited in their ability to include information in their annual reports beyond that which Form N-1A would specifically permit or require.[251] We are proposing an exception to this limitation because these additional fund statistics may help shareholders better understand the fund's activities and operation during its most recent fiscal year. Permitting funds to provide key fund statistics that are tailored to the fund's investment strategy could enable them to provide information that is meaningful to their specific shareholder base. The proposed flexibility to include additional "statistics"—a term that we believe conveys a brief presentation of quantitative measures—is designed to provide information in a concise format that would assist shareholders in evaluating significant factors that reflect the fund's performance and operations. For example, a fund that has a stated investment objective of maintaining returns that correspond to the returns of a securities index might consider including its tracking error as an additional statistic. Similarly, a fund that invests primarily in fixed-income bonds might consider including statistics such as maturity, duration, average credit quality, or yield. In each case, these additional statistics would be reasonably related to the relevant fund's investment strategy and would help shareholders better understand the fund's activities and operations during the reporting period.

We are proposing several instructions that are designed to help shareholders more easily digest any additional statistics that funds would disclose in their annual reports, and to provide context for understanding the disclosed statistics. First, if a fund provides a statistic

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[251] For instance, funds have the ability to select the most appropriate categories when preparing their graphical representation of holdings. *See* proposed Item 27A(f) of Form N-1A.

that is disclosed elsewhere on Form N-1A, the fund must follow any associated instructions describing the calculation method for the relevant statistic.[252] Second, we are proposing an instruction that would encourage a fund to use tables, bullet lists, or other graphics or text features to disclose the statistics.[253] This instruction is designed to promote the presentation of fund statistics in a useful format.[254] Third, if a statistic is included in, or could be derived from, a fund's financial statements or financial highlights, we are proposing an instruction that would require a fund to use or derive such statistic from the fund's most recent financial statements or financial highlights.[255] Fourth, we are proposing an instruction that would allow a fund to describe briefly the significance or limitations of any disclosed statistics in a parenthetical, footnote, or similar presentation.[256] Finally, if a fund chooses to include additional statistics, we are proposing an instruction that would require additional statistics to be reasonably related to the fund's investment strategy.[257] These proposed instructions are, in the aggregate, designed to help promote the integrity and consistency of the information that

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252 *See* Instruction 1 to proposed Item 27A(e). For example, a fund that chooses to disclose its yield as an additional statistic would have to calculate the yield pursuant to the requirements of Item 26(b)(2) of Form N-1A.

253 We are not proposing to require such formatting to maintain flexibility and allow a fund to tailor the format of its disclosure to its unique characteristics.

254 *See* Instruction 2 to proposed Item 27A(e).

255 *See* proposed Instruction 3 to proposed Item 27A(e) of Form N-1A.

256 *See* proposed Instruction 4 to proposed Item 27A(e). For example, a fund that chooses to disclose its tracking error may wish to include additional disclosure explaining that tracking error is the difference between a mutual fund portfolio's returns and its benchmark index, calculated on a scale between 0 and 1.0—with 1.0 representing perfect correlation.

257 *See* proposed Instruction 5 to proposed Item 27A(e). This proposed instruction is designed to limit the types of statistics a fund includes only to those that are most pertinent in light of a fund's investment strategy, and to prevent disclosure "creep."

funds may choose to provide, while allowing funds to tailor their disclosure to increase its usefulness to investors.

We seek comment on our proposal to require funds to provide important fund statistical information in the annual report and specifically on the following issues:

67. Should we require a fund to include its size, in terms of its net assets, in the annual report, as proposed? Should we instead permit, but not require, a fund to include its net assets? Why or why not? What informational benefits would requiring this information in the annual report serve? For example, would knowing a fund's net assets provide shareholders with useful context for evaluating the required graphical representation of holdings that also would appear in the annual report?

68. Are there any additional statistics we should require funds to disclose that would provide information about their size, or the change in their size over time? For example, should we require a fund to provide the change in the fund's net asset value from one year to another over a five-year period, as is currently required in the financial highlights? Why or why not?

69. Should we require a fund to include the total number of portfolio holdings in the annual report, as proposed? Should we instead permit, but not require, funds to include total number of portfolio holdings? Why or why not? What informational benefits would requiring this information in the annual report serve? For example, would knowing this information help shareholders evaluate other aspects of the fund's investment strategy, risks, and/or performance? Or, would this information be misleading to investors under certain circumstances (for example, if a fund has over 1,000 holdings but the majority of the fund's assets are invested in only 10-20 of those holdings)? Does the total number of portfolio

holdings information serve as a useful statistic for a shareholder to help understand a fund's diversification and/or susceptibility to market fluctuations? Is the total number of holdings information a useful supplement to the graphical representation of holdings?

70. Should we require a fund to include its portfolio turnover rate in the annual report, as proposed? Should we instead permit, but not require, funds to include portfolio turnover rate? Why or why not? What informational benefits would requiring this information in the annual report serve? For example, does the portfolio turnover rate information serve as a useful statistic for a shareholder to understand the costs associated with investing in the fund?

71. Are there any other statistics that we should require funds to disclose in their annual reports? For example, should we require a fund to include information regarding its annual total return for each of the preceding five years or the fund's portfolio turnover rate, as is currently required in the financial highlights?

72. Is it appropriate to allow a fund, as proposed, to include additional statistics that are reasonably related to the fund's investment strategy and that the fund believes would help shareholders better understand the fund's activities and operations during the reporting period? Why or why not? Should the Commission provide additional guidance on how to determine whether a statistic is reasonably related to the fund's investment strategy? Would allowing funds to include additional fund statistics in their shareholder reports result in disclosure that may be overly long, complex, technical and/or duplicative? The proposal would permit funds to include additional fund statistics online (for example, in online tools that funds may overlay onto the shareholder reports that they provide on their websites), but

not in the version of the report that shareholders receive in paper format.[258] Is this approach appropriate? Why or why not?

73. Would funds include additional statistics in their shareholder reports, as the proposed rule would permit? If so, what types of statistics would funds include, and how would these statistics help investors to understand the fund's investment strategy, risks, and/or performance? For example, would a fixed-income fund include statistics regarding yield, maturity, and/or duration?

74. If a fund chooses to include in its annual report a statistic that Form N-1A requires the fund to disclose elsewhere, should we, as proposed, require such a fund to follow the Form N-1A instructions describing the calculation methodology for the relevant statistic? Should we place any additional limitations on the statistics funds would be allowed to include? For example, should we limit the number of additional statistics a fund could include? Should we specify the share class(es) tied to the statistics funds could disclose *(e.g.*, require funds to include information only for the most expensive share class)? Should we only allow a fund to include a fund statistic that the fund otherwise discloses to shareholders and reports to the Commission, such as information the fund includes on Form N-PORT, Form N-CEN, or in the fund's financial statements, prospectus, or SAI? Should we include an instruction that would prohibit funds from including information generated by third-party vendors, such as Morningstar or Lipper ratings or sustainability rankings? If so, why, and what should this instruction specify?

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258 *See infra* Section II.B.4.

75. Is the proposed instruction that would encourage a fund to use graphics or text features, such as bullet lists or tables, as appropriate to disclose fund statistics helpful to promote succinct, useful presentations of information that will help shareholders understand their fund's investment strategy, risks, and/or performance? Should we require any particular presentation for the statistics that all funds would have to include in their annual report, and if so, what presentation and why?

76. Should we, as proposed, allow funds to describe the significance or limitations of each disclosed statistic? If so, is the instruction that the additional disclosure be presented in a parenthetical, footnote, or similar presentation appropriate, or are there any more-specific requirements that we should include in the instruction? Should we require, rather than permit, this disclosure?

77. Should we, as proposed, require additional statistics to be reasonably related to the fund's investment strategy? Would this limitation appropriately tailor the statistics a fund chooses to include to those that are most pertinent in light of a fund's investment strategy?

78. Should we require a fund to organize the disclosure of the statistics in a manner that gives each statistic similar prominence? Would such a limitation prevent funds from obscuring statistics that reflect less favorably on the fund's performance returns? Are there other instructions that could achieve this goal? Would a "similar prominence" requirement for fund statistics result in any anomalous disclosure results, or the need for Commission clarification or guidance (for example, if certain statistics require more context than others, or certain statistics lend themselves better to graphic display than others)?

79. Are there any additional instructions that we should include that would permit additional flexibility in presenting fund statistics? For example, if the value of a statistic

significantly changed during the most recent fiscal year, should we allow or require funds to briefly describe the factors that contributed to the change? As another example, should we allow funds to provide comparative statistics, such as applying the same statistic to a relevant index or peer group in the same fiscal year? Would investors find this comparative information useful? If so, should we require, rather than permit, this disclosure? If the value of a statistic has significantly changed from the value disclosed in the fund's previous shareholder report, should we allow a fund to explain the factors that contributed to the change in value? Would shareholders find this information useful? If so, should we require, rather than permit, this disclosure?

e. Graphical Representation of Holdings

We are proposing to retain the current requirements for the graphical representation of holdings that funds currently include in their shareholder reports, with certain revisions designed to improve the current presentation. The graphical representation of holdings is one or more tables, charts, or graphs depicting the fund's portfolio holdings by category (for example, type of security, industry sector, geographic region, credit quality, or maturity) as of the end of the reporting period.[259] The purpose of this presentation is to illustrate, in a concise and user-friendly format, the allocation of a fund's investments across particular categories of investments (such as asset classes).[260] We understand that many investors, including investors responding to the Fund Investor Experience RFC, have viewed information about a fund's

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[259] *See* Item 27(d)(2) of current Form N-1A.

[260] *See* February 2004 Shareholder Report Adopting Release, *supra* footnote 83, at Section II.B.3.

holdings as important to know when making an investment decision.[261] We believe a layered approach to the disclosure of portfolio holdings, where a graphical representation of holdings is provided in the annual report and more detailed and current portfolio holdings information is available online and upon request, helps shareholders understand how the fund invested its assets. While currently investors receive both the graphical representation of holdings and a schedule of investments, we are only retaining the graphical representation of holdings, and not a more complete list of fund portfolio holdings, because we believe it provides a better summary presentation that shareholders can more easily review.[262]

We are proposing two changes to the current requirements relating to the graphical representation of holdings. Currently, funds have the flexibility to base the tabular or graphic presentation of holdings on the fund's net asset value or total investments. We also are proposing to permit funds to show their holdings based on either the fund's net exposure, or total exposure, to particular categories of investments.[263] As funds do today, a fund would have to disclose its graphical representation of holdings using categories, and with a basis of

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261 *See, e.g.*, Baker Comment Letter; Scott Comment Letter; Stiles Comment Letter; Waranowski Comment Letter; Wilhelm Comment Letter; *see also supra* footnote 47; *supra* footnote 247 (stating that the 2012 Report on Investor Testing of Fund Annual Reports noted that 45% of investors deemed a fund's portfolio holdings as "absolutely essential information to any investor").

262 Investors have expressed a strong preference for including more tables, charts, and graphs in fund disclosure to make information more understandable to the average investor. *See supra* footnote 34.

The full schedule of portfolio holdings will be available online and upon request on at least a quarterly basis. *See* proposed rule 30e-1(b)(2). We discuss the availability of the schedule of investments in *infra* Sections II.D.1.a and II.D.2.a. *See also* rule 6c-11 under the Investment Company Act, which requires daily portfolio holdings for ETFs relying on the rule.

263 *See* proposed Item 27A(f) of Form N-1A.

presentation (*i.e.*, presented according to the fund's net asset value, total investments, or investment exposures) that is reasonably designed to depict clearly the types of investments made by the fund, given its investment objectives.[264]

The proposed amendment to allow investment exposure as a basis for presenting a fund's graphical representation of holdings is designed, in part, to provide a more meaningful presentation of holdings for funds that use derivatives to obtain investment exposures as part of their investment strategies.[265] A graphical representation of holdings based on net asset value or total investments may not represent the true economic exposure of a fund that uses derivatives. For example, a fund that executes its strategy primarily through derivatives transactions (*e.g.*, a managed futures fund or a commodity strategy fund) may invest a majority of its assets in government securities or money market funds, while a substantial portion of the fund's risks and returns may be derived from derivatives that compose only a small portion of its assets. In this situation, giving a fund the flexibility to present the graphical representation of holdings on an exposure basis could show a more accurate picture of the sources of the fund's investment risks and returns.[266] A fund that uses "net exposure" or

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264 *See id.*; *see also* Item 27(d)(2) of current Form N-1A.

265 *See* Use of Derivatives by Registered Investment Companies and Business Development Companies; Required Due Diligence by Broker-Dealers and Registered Investment Advisers Regarding Retail Customers' Transactions in Certain Leveraged/Inverse Investment Vehicles, Investment Company Act Release No. 33704 (Nov. 25, 2019) [85 FR 4446 (Jan. 24, 2020)] "Derivatives Proposing Release"), at Section I.A (providing an overview of funds' use of derivatives).

266 For example, the XYZ Commodity Strategy Fund might invest 20% in commodity-linked derivatives and 75% in money market funds, such that the economic exposure of the fund would be the same as a 95% direct investment in commodities. Under the proposal, the fund would be permitted to show 95% exposure to commodities in its graphical representation of holdings instead of showing both the 20% derivative position and 75% money market fund position. However, a fund would have to select a basis of presentation that is reasonably

"total exposure" as a basis for representing its holdings would also be permitted to include a brief explanation of this presentation.

The proposed amendment also is designed to provide a more meaningful presentation of holdings for certain funds that hold both long and short positions. Currently, the requirements for the graphical representation of holdings may not take into account both long and short positions. The proposed amendment provides clarity that funds that hold both long and short positions may present the long and short positions separately (*i.e.*, total exposure), or show the combined effect of both positions (*i.e.*, net exposure).[267] We believe this additional flexibility will allow certain funds, such as funds with "long-short" investment strategies, to provide representations that are tailored to their holdings and investment strategies. However, funds would not have full discretion to select their basis of presentation. They must select a basis of presentation (*i.e.*, presented according to the fund's net asset value, total investments, or investment exposures) that is reasonably designed to depict clearly the types of investments made by the fund, given its investment objectives.[268]

We are also proposing a minor change with respect to funds that intend to depict portfolio holdings according to credit quality. Currently, such a fund must describe how the credit quality of its holdings was determined and, if credit ratings are used, the fund must

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designed to depict clearly the types of investments made by the fund, given its investment objectives. *See infra* footnote 268 and accompanying text.

267 As an example, if a fund had a 5% long position in XYZ Automotive Co and a 4% short position in QRS Automotive Inc., the fund might show (1) the 5% long position in the automotive industry and separately show a 4% short position (total exposure); or (2) the net position of 1% in the automotive industry (net exposure).

268 *See* proposed Item 27A(f) of Form N-1A.

explain why it selected a particular credit rating.[269] We understand that there is diversity in practice as to the length of these disclosures, with some funds including a significant level of detail, while others include only relatively brief disclosure. We are proposing minor revisions instructing funds to keep these disclosures brief and concise.[270] These proposed amendments are designed to keep the narrative disclosures in the annual report brief.

We request comment on the proposed amendments to the graphical representation of holdings disclosure requirements:

80. Should we retain the graphical representation of holdings in annual reports? Why or why not? Does this graphical representation help shareholders better understand a fund's holdings?

81. Are there any concerns about the current graphical representation of holdings presentation in shareholder reports? Are there any best practices we should encourage or require?

82. For funds that take significant derivatives positions or hold both long and short positions, would an exposure-based presentation help shareholders better understand a fund's holdings? Should we permit all funds to present their holdings on an exposure basis, as

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269 *See* Item 27(d)(2) of current Form N-1A. Funds that choose to depict portfolio holdings according to credit quality must include a description of how the credit quality of the holdings was determined. This description should include a discussion of the credit quality evaluation process, the rationale for its selection, and an overview of the factors considered. If the fund uses credit ratings issued by a credit rating agency to depict credit quality, the fund should explain how the credit ratings were identified and selected, and include this description near, or as part of, the graphical representation. *See* Removal of Certain References to Credit Ratings under the Investment Company Act, Investment Company Act Release No. 30847 (Dec. 27, 2013) [79 FR 1316 (Jan. 8, 2014)], at Section III.B.

270 *See* proposed Item 27A(f) of Form N-1A.

proposed? Should we require certain funds to present their holdings on an exposure basis? Why or why not? If so, for what types of funds and fund strategies would an exposure-based presentation be particularly useful? Should we be more prescriptive as to how to calculate exposure? If so, how? Should an exposure presentation be on a net or total basis or permit flexibility? Why or why not? Should we permit funds to pick how they present their holdings or should we prescribe when funds should use net asset value, total investments, net exposure, or total exposure? If we prescribe the basis of presentation, how should we determine which type of fund uses which type of presentation?

83. For funds that depict portfolio holdings according to credit quality, we are proposing to require that a fund briefly describe how the credit quality of its holdings was determined and, if credit ratings are used, the fund must concisely explain why it selected a particular credit rating. Is this additional disclosure about credit quality necessary and/or useful? If so, why? Would funds be able to succinctly provide this information? If not, why not?

84. Should we expressly permit or require other types of presentations, such as top 10 holdings or changes in holdings over time? If so, what types of presentations and why? If not, why not?

85. Should we permit or require other ways of presenting a fund's holdings? For example, instead of or in addition to the graphical representation of holdings, should we require disclosure of a fund's top holdings or a complete schedule of investments in the annual report? If so, what types of presentations should we require and why?

86. Should we consider any other changes to the graphical representation of holdings requirements?

f. Material Fund Changes

We propose to add a new section to the annual report to describe material changes to the fund. Specifically, a fund would have to describe briefly any material change in an enumerated list of items (as well as any other material change that the fund chooses to disclose) that has occurred since the beginning of the reporting period or that the fund plans to make in connection with its annual prospectus update.[271] This proposed requirement is designed to highlight for fund shareholders the most salient information they typically receive through annual prospectus updates and tailor the presentation of this information to these existing shareholders' needs (as opposed to the needs of new or prospective investors for whom prospectus disclosure is primarily designed). We believe this new shareholder report disclosure would allow shareholders to better recognize and understand material changes to their fund investment, which may inform a shareholder's future investment decisions (*i.e.*, whether to hold or sell the fund investment, or to purchase additional shares).

Under the proposal, a fund would be required to include disclosure in its annual report that briefly describes a material change with respect to any of the following items:

- A change in the fund's name (as described in Item 1(a)(1) of Form N-1A);
- A change in the fund's investment objectives or goals (as described in Item 2 of Form N-1A);

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[271] *See* proposed Item 27A(g) of Form N-1A; *see also supra* footnote 20 (recognizing that funds generally must transmit annual reports within 60 days after fiscal year-end and funds' annual prospectus updates are typically finalized within 120 days after fiscal year-end) and *infra* paragraph accompanying footnote 287 (discussing the annual report disclosure of material changes the fund plans to make in connection with its annual prospectus update).

- An increase in the fund's ongoing annual fees, transaction fees, or maximum account fee (as described in Item 3 of Form N-1A);[272]
- A change in the fund's principal investment strategies (as described in Item 4(a) of Form N-1A);[273]
- A change in the principal risks of investing in the fund (as described in Item 4(b) of Form N-1A);
- A change in the fund's investment adviser(s), including sub-adviser(s) (as described in Item 5(a) of Form N-1A);[274] and
- A change in the fund's portfolio manager(s) (as described in Item 5(b) of Form N-1A).

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272 *See infra* Section II.H (discussing proposed amendments to Item 3 of Form N-1A). The proposed rule would only require funds to disclose material increases to the fund's ongoing annual fees, transaction fees (*e.g.*, purchase charges or exit charges), or maximum account fee because we believe shareholders would be more interested in investment cost increases, rather than decreases. A fund may, however, voluntarily disclose material decreases to its fees and expenses in its annual report.

273 Under 17 CFR 270.35d-1 [Investment Company Act rule 35d-1], a fund with a name that suggests investments in certain industries, investments, countries, or geographic regions generally must have a policy to invest at least 80% of the value of its assets in the relevant investments that its name suggests (a "names rule investment policy"). This names rule investment policy is part of the fund's principal investment strategy. Under rule 35d-1, a fund must provide shareholders with at least 60 days prior notice of any change to its names rule investment policy under certain circumstances. *See* rule 35d-1(a)(2)(ii), (a)(3)(iii), and (c); Request for Comments on Fund Names, Investment Company Act Release No. 33809 (Mar. 2, 2020) [85 FR 13221 (Mar. 6, 2020)].

If, under the proposed requirement to disclose certain material fund changes in the annual report, the fund provides notice of a change to its names rule investment policy, that notice would satisfy the requirements of rule 35d-1 if: (1) the annual report is provided to shareholders at least 60 days before the fund changes its names rule investment policy; (2) the

Additionally, a fund could include any other material fund change that it would like to disclose to its shareholders.[275]

This item would notify fund shareholders of material changes to the fund that have occurred or that the fund expects to make in its forthcoming annual prospectus update. Currently, fund shareholders typically receive information about these changes in: (1) annual prospectus updates; or (2) other prospectus updates they may receive throughout the year (which can take the form of a prospectus "sticker" or an updated copy of the fund's prospectus or, under the proposal, a notice of material change under proposed rule 498B).[276] While fund shareholders receive information about material changes today, we are concerned that material changes to a fund may not always be readily apparent to an existing shareholder. For example, changes that the annual prospectus update discusses may not be easy for an average shareholder to identify, as there is no requirement for a fund to identify or highlight

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annual report contains the statement required by rule 35d-1(c)(2) (*e.g.*, "Important Notice Regarding Change in Investment Policy"); (3) and the envelope in which the shareholder report is delivered (if applicable) has this same statement, as required by rule 35d-1(c)(3).

274 The proposal would not require a fund to disclose a change in a sub-adviser where Item 5 of Form N-1A would not require the fund to disclose the name of the sub-adviser in its prospectus. *See* Instructions 1 and 2 to Item 5 of Form N-1A.

275 For example, a fund may wish to disclose in its annual report plans to liquidate or merge the fund, even if previously disclosed to shareholders.

276 *See supra* footnote 13 and accompanying text; Comment Letter of Investment Company Institute (Oct. 1, 2019) ("ICI Comment Letter II") (stating that respondents to an ICI member survey indicated that they primarily mail prospectus stickers to inform shareholders of material changes to the portfolio manager, material increases in fees, material (but nonfundamental) changes to the fund's investment objectives or strategies, changes to subadvisory agreements or subadvisers, changes in the fund's index or benchmark, changes to the fund's name, or planned fund mergers or liquidations). *See also infra* Section II.F.3.b (discussing proposed rule 498B's notice requirement).

changes to the fund in its prospectus.[277] Instead, a fund only has to update the prospectus disclosure to reflect the substance of the change. For example, if a fee has changed, the prospectus disclosure would include the new fee, but the prospectus would not have to disclose the old fee or highlight that the fee had changed. Thus, we believe the proposed requirement to disclose material fund changes in the annual report may increase the salience of material fund changes for shareholders and help shareholders more efficiently monitor and assess their fund investments relative to current disclosure requirements.

The categories of fund changes that we propose to require funds to disclose in their annual reports are meant to capture the types of material changes to prospectus disclosure that we believe are important to fund shareholders, that may influence their investment decisions, and that are more likely to occur. Specifically, the types of material changes that a fund would need to disclose in its annual report generally align with the key prospectus disclosure items the Commission requires in summary prospectuses (and in the summary section of statutory prospectuses) that we understand investors typically use to make investment decisions.[278] We

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[277] This also may be the case when a fund delivers an updated version of its prospectus to reflect material or other changes at other times throughout the year. However, a prospectus sticker that a fund instead may deliver for the same purpose typically would identify a change more explicitly.

Some other types of registered investment companies currently are required to identify certain changes in their shareholder disclosure materials. *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27 (requiring updating summary prospectuses for variable contracts, which provide a brief description of any important changes with respect to the contract that occurred within the prior year to allow investors to better focus their attention on new or updated information relating to the contract); rule 8b-16(b) under the Investment Company Act (requiring certain registered closed-end funds to identify specific types of material changes in their annual reports).

[278] *See* 2009 Summary Prospectus Adopting Release, *supra* footnote 10, at n.35 and accompanying text; *see also* Arnold Comment Letter; Baker Comment Letter; Dougle

believe the annual report should help a shareholder monitor and assess his or her fund investment, which includes information to help a shareholder assess whether to maintain or change a fund investment. Because we understand that investors often use information about a fund's principal investment strategy, principal risks, fees, investment objectives or goals, name, investment adviser, and portfolio manager to inform initial investment decisions, we believe that material changes to these items may affect a shareholder's assessment of whether to hold, buy, or sell fund shares.[279] In addition to the identified types of changes, funds could disclose other material changes on a discretionary basis, which we believe would provide flexibility to funds to highlight any additional material changes for investors concisely. Instead of identifying the types of material changes a fund must disclose and providing flexibility for funds to disclose other material changes, we considered proposing a more principles-based approach.[280] However, we believe that our proposed approach would provide more certainty to funds about the types of changes they must disclose and enhance consistency of annual report disclosure across funds.

Under the proposal, a fund would not be required to disclose material changes to other summary prospectus items (or to the corresponding items in the summary section of the statutory prospectus) because either they are unlikely to change, and we believe they are less likely to affect a shareholder's investment decisions (*e.g.*, tax information or financial

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Comment Letter; Freeland Comment Letter; Wilhelm Comment Letter.

[279] *See supra* footnote 278; What US Households Consider When They Select Mutual Funds, 2018, ICI Research Perspective (May 2019), *available at* https://www.ici.org/pdf/per25-03.pdf.

[280] For example, we considered an approach that would direct funds to disclose all material changes, without identifying the categories of material changes they would need to disclose.

intermediary compensation), or the shareholder report already provides similar information (*e.g.*, performance information). Additionally, information about shareholder voting results would not be required to be disclosed in the annual report because we believe that the material fund changes section of the report would reflect many of the types of material fund changes that may result from a shareholder vote.[281] For example, if shareholders approve a change in the fund's concentration policy, implementing this change would likely affect the fund's principal investment strategy and principal risks and warrant shareholder report disclosure of the associated change to the fund's principal investment strategy and principal risks. Further, if shareholders approve a new investment advisory contract with a higher management fee, this would likely increase the fund's ongoing annual fees and would trigger disclosure under this item if the resulting increase was material.

A fund would be required to disclose a change in its annual report only if the change is material to the particular fund. A fund should base this materiality determination on the facts and circumstances of the fund and the specific change. For example, an index fund might determine that a change in its portfolio manager is not a "material" change that it would need to disclose in its annual report, given the nature of the manager's involvement in portfolio decisions for the fund. At the same time, a fund that changes its principal investment strategy from primarily investing in U.S. investment-grade bonds to primarily investing in emerging

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[281] *See infra* Section II.D.1.d.

market high-yield bonds would disclose this change in its annual report, as well as through earlier communications to shareholders if the change already occurred.[282]

To help shareholders understand the material changes, a fund would have to provide a concise description of each change that provides enough detail to allow shareholders to understand the change and how it may affect shareholders.[283] For example, this could include stating that the fund's ongoing annual fees have increased from 0.55% to 0.65%, rather than simply stating that the fund's ongoing annual fees have changed or increased. As another example, if a fund's principal risks have materially changed, it could identify the newly identified or newly removed types of principal risks, rather than only stating that the principal risks have changed.

Disclosure of material fund changes in the annual report would include a legend to the effect of the following:

> This is a summary of certain changes [and planned changes] to the Fund since [date]. For more complete information, you may review the Fund's next prospectus, which we expect to be available by [date] at [website address] or upon request at [toll-free telephone number and, as applicable, email address].[284]

The proposed legend would inform shareholders that they can obtain more information about a specific material change by consulting the fund's next annual prospectus update. It also

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282 These earlier communications may include, for example, notices about a change in the fund's names rule investment policy, prospectus stickers, or notices under proposed rule 498B. *See, e.g.*, *supra* footnotes 273 and 276 and *infra* Section II.F.3.b.

283 *See* Instruction 1 to proposed Item 27A(g).

284 *See* Instruction 2 to proposed Item 27A(g) of Form N-1A. A fund would provide the internet address of the central site where a link to the fund's next prospectus will be available, if applicable, as well as a toll-free telephone number and, as applicable, the email address that shareholders can use to request copies of the fund's prospectus.

would explain how shareholders may find or request a copy of the annual prospectus update once it is available.

Under the proposed rule, funds generally would be required to disclose any enumerated material change that occurred since the beginning of the fund's most recently completed fiscal year, even if the fund already disclosed the material change to shareholders through other mechanisms during the year.[285] For example, if a shareholder received a prospectus sticker discussing the change, the change would still appear in the annual report.[286] As a result, the annual report would be a general repository for the enumerated material changes that occurred throughout the year. We believe it may be helpful for shareholders to be able to review a brief summary of all material changes that occurred during the year, instead of requiring shareholders to compile information from different sources if they want to understand all material changes for the year.

Along with changes that occurred since the beginning of the last fiscal year, the fund's annual report also would have to disclose material changes that the fund plans to make in connection with updating its prospectus for the current fiscal year. We are proposing this requirement so the annual report could be the primary disclosure source for fund shareholders,

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285 However, the proposed rule would not require a fund to disclose a material change that it already disclosed in its last annual report. This could occur if, for example, a material change took place at the beginning of the last fiscal year before the fund transmitted the last annual report or the fund planned to make the material change in connection with its annual prospectus update for the last fiscal year. *See* Instruction 3 to proposed Item 27A(g) of Form N-1A.

286 Under proposed rule 498B, a fund would need to timely notify existing shareholders of material fund changes. A fund also would have to disclose recent material changes in its annual report even if previously disclosed through a rule 498B notice. *See infra* Section II.F.3.b.

and they generally would not need to review the fund's annual prospectus update (other than to gather additional information about a particular fund change of interest). For example, we believe it would be more efficient for a shareholder to be able to review a single report to assess and monitor his or her fund investment, instead of receiving an annual report and then subsequently receiving an annual prospectus update or notice of additional material changes approximately two months later.[287] We understand that it is common for funds generally to be aware of material changes they plan to make in connection with updating their prospectuses before they transmit annual reports.[288] However, we recognize that the fund's associated post-effective amendment making these changes to its prospectus may not be effective at the time the fund transmits its annual report and may be subject to the staff review process.[289] As a result, the manner in which the fund describes the change in its prospectus may be subject to modification at the time the fund is required to transmit an annual report. Under these circumstances, we believe it would be appropriate for a fund to provide only a high-level description of the change because the exact disclosure regarding the change in the prospectus

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287 *See supra* footnote 20 and accompanying text; *infra* Section II.F.3.b (discussing a proposed requirement that a fund provide timely notices of material fund changes to shareholders if the fund relies on proposed rule 498B to no longer deliver prospectuses to its shareholders).

288 A fund typically must file a post-effective amendment to its registration statement that includes material changes at least 60 days prior to the time the amendment is effective (that is, before the fund can use it), and a fund typically aims for the amendment to be effective within 120 days of its fiscal year-end. *See generally* 17 CFR 230.485 [rule 485 under the Securities Act]; *supra* footnote 20. As a result, we understand that funds typically have already prepared and filed these post-effective amendments within 60 days of fiscal year-end, before they must transmit annual reports under Commission rules. *See* rule 30e-1(c) under the Investment Company Act [17 CFR 270.30e-1(c)].

289 Generally, the staff reviews post-effective amendments to fund registration statement that contain material changes (other than certain specific routine items). *See generally* rule 485 under the Securities Act.

could be subject to modification. The proposed legend that would accompany this disclosure would direct shareholders to the fund's next prospectus for additional detail, and the fund would need to provide a date by which it expects the updated prospectus to be available. In any event, a fund would not have to use the same language describing the change in its annual report as it uses in its prospectus (although neither description of the change would be permitted to be misleading).

We acknowledge that there could be scenarios where a material change occurs shortly before a fund transmits its annual report and, as a result, it would be difficult for the fund to disclose the material change in the annual report while still transmitting the report to shareholders within the required period (60 days after the fund's fiscal year-end).[290] For example, a fund's high-profile portfolio manager may resign shortly before the fund must transmit its annual report to shareholders. Under these circumstances, a fund (or intermediary) should provide a timely notice of the material change to shareholders under proposed rule 498B, if applicable, or through a prospectus sticker or annual prospectus update. The fund would also need to disclose the material change in its next annual report.[291]

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290 *See* rule 30e-1(c) [17 CFR 270.30e-1].

291 As an example, assume a fund's fiscal year ends on December 31, 2020. As a result, it would be required to transmit its 2020 annual report by March 1, 2021 (60 days after December 31) and would likely finalize its annual prospectus update by April 30, 2021 (120 days after December 31). If the fund's high-profile portfolio manager resigned on February 25, 2021, and it were difficult for the fund to prepare disclosure about this change to include in its 2020 annual report before March 1, 2021, the fund could instead disclose this change in its 2021 annual report. Shareholders would also receive more-timely notice of the change through other mechanisms, including the annual prospectus update, prospectus stickers, or notices under proposed rule 498B, depending on the circumstances. If the fund instead were able to disclose the change in its portfolio manager in the 2020 annual report, it would not be required to also disclose that change in its 2021 annual report or, if the fund relied on proposed rule 498B, in a notice under that rule. *See* Instruction 3 to proposed Item 27A(g) of Form N-1A; proposed rule

We request comment on the proposed material fund changes section of the annual report, including the following:

87. Should funds be required to disclose material fund changes in their annual reports, as proposed? Should all funds be required to disclose fund changes in their annual reports, as proposed, or should we exclude any subset of funds from this requirement (for example, should we exclude funds that do not rely on proposed rule 498B and that deliver annual prospectus updates to existing shareholders each year)? Instead of requiring disclosure about material changes in the annual report, should we require disclosure of these changes somewhere else, such as the prospectus or the fund's website? What location would be most appropriate for purposes of making the information available to shareholders? What location would be the most efficient for these purposes?

88. Are the categories of fund changes in the proposed enumerated list the types of changes that are most relevant to fund shareholders and that may influence their investment decisions? Are there other categories of material changes that should be disclosed in the annual report? For example, should funds be required to disclose all material changes that occur as a result of a shareholder vote, rather than just the ones included in the enumerated list?

89. Is the scope of the categories of fund changes in the proposed enumerated list appropriate? If not, how should we modify the scope? For example, rather than requiring a fund to disclose material increases in a fund's ongoing annual fees, transaction fees, or

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498B(c)(2).

maximum account fee (as described in proposed Item 3 of Form N-1A), should we require funds to disclose any material changes (that is, both increases and decreases) to fee and expense information described in its prospectus fee summary or fee table?

90. Should we expand or reduce the scope of fee-related items that the material fund changes disclosure would include? For example, should we only require funds to disclose a material increase in ongoing annual fees because the annual report is directed to existing shareholders, or is it valuable for a fund shareholder to receive information about material increases to the fund's transaction fees in case he or she is considering purchasing additional shares in the fund? We understand that account fees are relatively rare and typically small in size. Should the proposed item refer to account fees, or should it only refer to ongoing annual fees and transaction fees? Additionally, we are proposing to allow funds that invest 10% or less of their total assets in acquired funds to disclose acquired fund fees and expenses in a footnote to the prospectus fee table, instead of in the bottom-line ongoing annual fees.[292] Although such a fund's investments in acquired funds would be limited, are there circumstances in which its acquired fund fees and expenses could increase to such an extent that we should require the fund to disclose the increase in acquired fund fees and expenses in the annual report (*e.g.*, as a separate material change, or as a material increase to the fund's ongoing annual fees if the fund's combined ongoing annual fees and acquired fund fees and expenses materially increase in the aggregate)?

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[292] *See infra* Section II.H.1.g.

91. Would disclosure about the identified categories of material changes be redundant with other shareholder report disclosure? For example, would funds discuss certain categories of material changes, such as material changes to the fund's principal investment strategy, in the narrative MDFP disclosure? If so, do the two disclosure items serve sufficiently different purposes, or should we modify the proposed requirements to limit potential redundancy? For example, if we require funds to disclose information about material strategy changes in the narrative MDFP disclosure and not in the material fund changes disclosure, would it be more difficult for shareholder to identify and understand information about material fund changes? Under that approach, where should a fund disclose information about a material strategy change the fund plans to make in its annual prospectus update?

92. Instead of identifying particular types of material changes a fund must disclose in its annual report, as proposed, should we use a more principles-based or flexible framework for disclosing fund changes? For example, should we require funds to disclose all material changes without identifying particular categories of changes? Under a more principles-based or flexible framework, how could we make sure the disclosure focuses on fund changes that would be of interest to fund shareholders and is not unduly long or complex?

93. Does the proposed provision allowing funds to disclose additional material changes on a discretionary basis provide funds with appropriate flexibility to consider their particular facts and circumstances? Would the benefits of this flexibility justify any resulting increase in the shareholder report's length and complexity? Should we provide more flexibility by permitting funds to disclose other changes that may not necessarily be material

to the fund? If so, what types of other changes would funds disclose, and how would information about that change assist shareholders? Alternatively, should we not permit funds to optionally disclose other categories of material changes and instead limit the types of material changes funds can disclose in the annual report to only those listed in the form item?

94. Should funds be required to disclose only material changes, as proposed? Would requiring funds to make a materiality assessment of relevant changes introduce unnecessary subjectivity into the disclosure? Or is a materiality threshold appropriate to limit the annual report disclosure to the types of changes that would be most important to shareholders? Would a different threshold be more appropriate? For example, should we require a fund to disclose "significant" or "substantial" changes in its annual report? If so, why?

95. As proposed, should funds be required to disclose any material changes in their annual reports that occurred since the beginning of the fund's last fiscal year (even if the fund has already disclosed any of these changes to existing shareholders, for example through prospectus supplements, notices under proposed rule 498B, or other non-shareholder report mechanisms)? Would it be beneficial for shareholders to see all of these changes summarized in a single place? Alternatively, would this approach have unintended consequences, such as increased investor confusion?

96. Should funds be required to disclose material changes that they plan to make in connection with updating their prospectuses under section 10(a)(3) of the Securities Act for the current fiscal year, as proposed? Does this proposed requirement raise timing concerns, compliance difficulties, liability risks, or other concerns that we have not adequately addressed? Are there certain types of changes where these concerns are more pronounced

(*e.g.*, where the parameters of the change are more likely to be modified between the time a fund transmits its annual report within 60-days after its fiscal year end and the time its post-effective amendment updating the relevant prospectus disclosure is effective, generally within 120 days after its fiscal year end)? How should we address any associated concerns? Are there other mechanisms, other than the annual report, that funds should be required or permitted to use to notify existing shareholders of these changes?

97. How detailed should annual report disclosure of a fund change be? Should we require, as proposed, that the description of the change be concise but with sufficient detail to allow shareholders to understand the change and how the change may affect shareholders? If not, should the description of the change be more or less detailed than proposed? Please explain.

98. Should funds be required to provide the proposed legend in the fund changes section of the annual report? Would the proposed requirement to provide an estimated date by which the fund's next prospectus will be available on its website or upon request present difficulties for funds or shareholders? What are those difficulties, and how could we address them? Would the proposed legend make it sufficiently clear to fund shareholders that the prospectus with additional information about the change is not currently available but will be available at a later date? If not, how could we make this clearer?

g. Changes in and Disagreements with Accountants

We are proposing to require funds to include a concise discussion of certain disagreements with accountants in the annual report. Funds currently are required to disclose certain information concerning changes in and disagreements with accountants in their shareholder reports. The current disclosure requirement is applicable only if a fund's

accountant has resigned or was dismissed.[293] In this case, the fund has to disclose the information that 17 CFR 229.304 [Item 304 of Regulation S-K] requires, concerning the circumstances surrounding the former accountant's dismissal or resignation, whether in the fund's two most recent fiscal years there were certain accounting-related disagreements with the former accountant, and other related information.[294] We understand that funds rarely include disclosure about disagreements with accountants, and therefore we assume that the events that necessitate this disclosure rarely occur. In addition, we believe that current disclosure regarding these types of events may not be particularly investor-friendly because of the complexity of the accounting issues that may give rise to any disagreements.

However, we believe that retaining this disclosure in funds' shareholder reports in summary form continues to be important because this would put investors on notice of the dismissal or resignation of an accountant and the existence of a material disagreement with that accountant.[295] We believe this shareholder report disclosure could discourage funds' audit

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293 Specifically, the disclosure requirement is applicable when the independent accountant who was engaged as the principal accountant to audit the fund's financial statements, or an independent accountant who was previously engaged to audit a significant subsidiary and on whom the principal accountant expressed reliance in its report, has resigned or was dismissed.

294 *See* 17 CFR 229.304; *see also* Item 27(b)(4) and Item 27(c)(4) of Form N-1A.

The types of disagreements that funds are required to disclose relate to—among other things—internal controls over financial reporting, management representations, the need to expand the scope of the audit based on information suggesting issues with a prior audit report, and questions regarding reliability of previous audit reports. *See* Items 304(a)(1)(v)(A) - (D) of Regulation S-K.

295 *See, e.g.*, ICI Comment Letter I (noting that changes in and disagreements with accountants are not common, but when they do occur, this information is key information for shareholders).

"opinion shopping."[296] "Opinion shopping" generally refers to the search for an auditor that is willing to support a proposed accounting treatment that is designed to help a fund achieve its reporting objectives, even though that treatment could frustrate reliable reporting.[297]

We propose to move the currently-required disclosure to Form N-CSR and to replace it in the annual report with a high-level summary of information that funds would report on Form N-CSR.[298] Specifically, when a fund has a material disagreement with an accountant that has resigned or been dismissed, the fund would have to include in its annual report: (1) a statement of whether the former accountant resigned, declined to stand for re-election, or was dismissed and the date thereof; and (2) a brief, plain English description of disagreement(s) with the former accountant during the fund's two most recent fiscal years and any subsequent interim period that the fund discloses on Form N-CSR.[299] Funds would not be required to disclose, and we would not expect funds to disclose, the absence of disagreements in response to this proposed disclosure requirement.

We request comment on the proposed amendments to the current requirements to include disclosure about disagreements with accountants in funds' annual reports, including:

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296 *See* Disclosure Amendments to Regulation S-K, Form 8-K and Schedule 14A Regarding Changes in Accountants and Potential Opinion Shopping Situations, Securities Act Release No. 6766 (Apr. 7, 1988) [53 FR 12924 (Apr. 12, 1988)] ("Changes in Accountants and Potential Opinion Shopping Adopting Release"); *see also* Foreign Issuer Reporting Enhancements, Securities Act Release No. 8959 (Sept. 23, 2008) [73 FR at 58310 (Oct. 6, 2008)].

297 *See* Changes in Accountants and Potential Opinion Shopping Adopting Release, *supra* footnote 296, at Section I.

298 *See infra* Section II.D.1.c (discussing proposed Form N-CSR filing requirement).

299 *See* proposed Item 27A(h) of Form N-1A. This proposed disclosure requirement is applicable specifically in the circumstances that footnote 293, *supra*, describe.

99. Should we require funds to include high-level disclosure about changes in and disagreements with accountants in their annual reports, as proposed? Why or why not? Is the current disclosure requirement regarding changes in and disagreements with accountants helpful to fund shareholders? How frequently do the events that necessitate this disclosure occur? Would the proposed amendments improve shareholders' ability to understand this information?

100. As proposed, funds would only need to disclose certain disagreements with accountants (those that occurred within the past two fiscal years and where the accountant either has resigned or was dismissed) in the annual report. Should we require any additional information about changes in or disagreements with accountants in the annual report? Are there any types of disagreements that funds should not have to include in their annual report? Which ones and why?

101. Is there any other information about the fund's accountants or the fund's financial statements that we should require funds to disclose in the annual report?

h. Statement Regarding Liquidity Risk Management Program

In 2016 and 2018, the Commission adopted a series of reforms designed to promote effective liquidity risk management across the open-end fund industry and enhance disclosure regarding fund liquidity and redemption practices.[300] As part of these reforms, if a fund's

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[300] Investment Company Liquidity Risk Management Programs, Investment Company Act Release No. 32315 (Oct. 13, 2016) [81 FR 82142 (Nov. 18, 2016)]; Investment Company Swing Pricing, Investment Company Act Release No. 32316 (Oct. 13, 2016) [81 FR 82084 (Nov. 18, 2016) ("2016 Liquidity Rule Release"); Investment Company Liquidity Disclosure, Investment Company Act of 1940 Release No. 33142 (June 28, 2018) [83 FR 31859 (Jul. 10, 2018)] ("2018 Liquidity Disclosure Release").

board of directors has reviewed the fund's liquidity risk management program as required by 17 CFR 270.22e-4 [rule 22e-4 under the Act] during the fund's most recent fiscal half-year, the fund is required to briefly discuss the operation and effectiveness of the liquidity risk management program in its most recent shareholder report.[301] In adopting this requirement, the Commission stated that it had considered commenters' suggestions that shareholder report disclosure would have the benefit of allowing funds to produce tailored disclosure suited to the particular liquidity risks and management practices of the specific fund.[302]

We continue to believe that requiring funds to provide shareholders with information about the operation and effectiveness of the fund's liquidity risk management program (along with appropriate prospectus risk disclosure and MDFP disclosure) may help provide investors a comprehensive picture of the fund's liquidity risks and their management. However, having reviewed shareholder report disclosures responsive to this requirement, we preliminarily believe that the disclosure in its current form is not well-suited to a concise shareholder report. The staff has observed that the shareholder report liquidity risk management disclosure often appears as a lengthy recitation of the requirements of rule 22e-4 and is not tailored to a particular fund. This disclosure does not lend itself to the type of focused disclosure that the proposed shareholder report is designed to include. Therefore, we propose to revise the

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301 *See* Item 27(d)(6)(ii) of Form N-1A; *see also* 2018 Liquidity Disclosure Release, *supra* footnote 300. The compliance date for larger entities was December 1, 2019 and for smaller entities was June 1, 2020.

302 *See* 2018 Liquidity Disclosure Release, *supra* footnote 300, at n.47 and accompanying text.

disclosure requirements to emphasize that the disclosure must be tailored to each fund and be concise.[303]

Given the nature and quality of the disclosure we have seen, we believe the statement regarding the fund's liquidity risk management program ("liquidity risk management disclosure") should be more tailored, concise, and informative to help shareholders better understand how the fund is managing its liquidity risks, which in turn could inform the shareholders' ability to monitor their investments in the fund. Therefore, we propose replacing the current disclosure with a brief summary of:

- The key factors or market events that materially affected the fund's liquidity risk during the reporting period;
- The key features of the fund's liquidity risk management program; and
- The effectiveness of the fund's liquidity risk management program over the past year.[304]

We are also proposing an instruction that a fund should, where appropriate, tailor the disclosure responsive to this requirement to the fund rather than rely on generic, standard disclosures.[305] The disclosure should not include a recitation of all the elements of the fund's liquidity risk management program. Instead, it should include the key features of the program as

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303 *See* proposed Item 27A(i) of Form N-1A.

304 *See* proposed Item 27A(i) of Form N-1A.

305 *See* Instruction 1 to proposed Item 27A(i) of Form N-1A. For example, using the same disclosure for all funds in a fund group may not be appropriate in light of this proposed instruction. However, we generally believe it would be appropriate for funds in a fund group with similar investments, and that are subject to the same liquidity risks, to use the same disclosure.

they relate to the fund.[306] For example, a loan fund may briefly describe any expedited settlement agreements, or an international fund may describe the availability of a line of credit or increasing its investments in highly liquid assets ahead of extended holidays (*e.g.*, Chinese New Year). We believe this disclosure would help inform investors about the sources of the liquidity risk for the fund, the key steps fund management takes to ameliorate those risks, and a statement explaining whether those steps have been effective. We believe that requiring tailored disclosure would better inform investors, which is a benefit we considered in assessing any incremental additional burden.

Finally, we propose to keep the timing requirements for the liquidity risk management disclosure consistent with the current requirements. We continue to believe it is appropriate to require a fund to include the liquidity risk management disclosure in the annual or semi-annual report following the period when the fund performed its required annual review of the liquidity risk management program, which may reduce costs and allow funds to provide more effective and timely disclosure.[307]

We request comment on the proposed approach of including the liquidity risk management disclosure in the shareholder report:

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306 Appendix A to this release contains a hypothetical annual report that was created solely for illustrative purposes and includes an example of the type of disclosure Item 27A(i) intends to elicit.

307 *See* 2018 Liquidity Disclosure Release, *supra* footnote 300, at Section II.B.2.

If the board were to review the liquidity risk management program more frequently than annually, a fund could choose to include the discussion of the program's operation and effectiveness over the past year in the fund's annual and/or semi-annual report, but this discussion would not be required to be included in both reports. *See infra* footnote 369 and accompanying text.

102. Should we require the liquidity risk management disclosure be included in the shareholder report, as proposed? Should we instead require it to be included in another disclosure document such as the fund's Form N-CSR, statutory prospectus or summary prospectus, or on the fund's website? If so, where should it be included?

103. Would the proposed disclosure requirements provide shareholders the appropriate information to help them understand the fund's liquidity and liquidity risks and make more-informed investment decisions? Is the disclosure an improvement over the current disclosure requirements? Is the requirement to tailor the disclosure to each fund appropriate? If not, why not? How could the proposed disclosure requirements be improved?

104. Should we continue to require the liquidity risk management disclosure to be included in the most recent shareholder report following the board's review of the program or, for consistency, should we only require the disclosure in the annual report?

105. Rather than requiring all funds to include the liquidity risk management disclosure in their shareholder reports as proposed, should we instead require only a subset of funds to include this disclosure? For example, should we only require this disclosure for funds that hold less than 50% of their net assets in highly liquid investments? Alternatively, should all funds that have a highly liquid investment minimum be required to include this disclosure? Are there any concerns about funds identifying themselves through this disclosure as holding a certain percentage of assets that are not primarily highly liquid investments? If so, what are those concerns and how can they be addressed?

106. Is there any other liquidity-related information that may be relevant to shareholders that funds should be required to disclose in the shareholder report or on Form N-

CSR? Are there alternative approaches to providing relevant liquidity information to shareholders? If so, what are they, and why should we use them?

**i.** Availability of Additional Information

We are proposing to require funds to include a statement in the annual report that informs investors about additional information that is available on the fund's website.[308] Specifically, funds would have to provide a brief, plain English statement that certain additional fund information is available on the fund's website. This statement would have to include plain English references to, as applicable, the fund's prospectus, financial information, holdings, and proxy voting information. In addition, if the shareholder report appears on a fund's website or otherwise is provided electronically, the fund must provide a means of immediately accessing this additional information (such as a hyperlink or QR code).[309]

Under current shareholder report requirements, funds must include statements regarding the availability of the fund's: (1) quarterly portfolio schedule, (2) proxy voting policies and procedures, and (3) proxy voting record.[310] We believe that this information may be important to certain investors, and they may not know this information is available or how to find it.[311] Because of the importance of this information to some investors and consistent with a layered approach to fund disclosure that makes more-detailed or technical information

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308 *See* proposed Item 27A(j) of Form N-1A.

309 *See* Instruction 9 to proposed Item 27A(a) of Form N-1A; *see also infra* Section II.B.4.

310 *See* Items 27(d)(3) through (5) of Form N-1A.

311 *See, e.g.*, 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26 (reports on investor preferences for shareholder report items); Investor Preferences Report, *supra* footnote 31 (reports on investor preferences with respect to fund disclosure items); Scott Comment Letter; Wilhelm Comment Letter; Stiles Comment Letter; McRitchie Comment Letter.

available to those investors who find the information valuable, we believe it is important to continue to inform investors that this information is available and how to find it. The proposed new statement would consolidate several currently required statements about the availability of information (including the quarterly portfolio schedule, proxy voting policies and procedures, and proxy voting record) with a single statement that covers this same information.

We are also proposing to require funds to refer in the statement to other information that would not itself be included in the annual report under the proposal.[312] First, because the annual report would no longer include financial statements, we believe it is appropriate to inform investors that this information is available. In addition, because the annual report briefly describes certain changes to the fund's prospectus, we believe it is important to remind investors about the availability of the current fund prospectus, which may provide additional context to the changes described in the report.

We also propose to provide a fund with the flexibility to refer to other information available on the fund's website, if it reasonably believes that shareholders would likely view the information as important.[313] For example, a fund may wish to refer investors to a document describing the benefits of certain types of investments, a description of credit ratings, additional performance presentations, or additional commentary about how the fund

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312 *See* Instruction 1 to proposed Item 27A(a) and proposed Item 27A(j); *see also infra* Section II.B.3. If the annual report appears on a website or is otherwise provided electronically, funds must provide a means of facilitating access to this information, such as including a hyperlink to this information.

313 *See* Instruction 3 to proposed Item 27A(a) of Form N-1A.

performed. We believe this flexibility is appropriate because funds may wish to provide additional information to investors that may be more tailored or relevant to a given fund. We also believe this flexibility is appropriate given the content limitations imposed on the proposed annual report.[314] This additional information referred to in the annual report would have the same status under the Federal securities laws as any other website or other electronic content that the fund produces or disseminates. The fact that a shareholder report references other information available on a fund's website does not change the legal status of the referenced information. For instance, a performance presentation or description of credit ratings on a fund's website would be subject to the same legal requirements and have the same legal status regardless of whether the information was referenced in a shareholder report.[315]

We request comment on the proposed amendments to include disclosure about additional information that is available to investors outside of the annual report, including:

107. Would this proposed disclosure requirement be useful to investors? Instead of requiring a statement that certain items are available online, should we require a statement that more generally indicates that additional information is available on the fund's website without listing particular items? Are there any other changes we should make to the proposed statement about the availability of additional information? Are there other information items that funds should be required to include in the statement? Why? Are there any information

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314 The proposed annual report may only include information that Item 27A of Form N-1A specifically permits or requires. *See* Instruction 3 to proposed Item 27A(a) of Form N-1A; *see also* discussion at *supra* Section II.B.1.b.

315 *See* discussion at *infra* Section II.B.4.

items that should be excluded? If so, why? Instead of one statement that certain items are available online, should we require shareholder reports to include hyperlinks throughout the report linking to additional related content that is available online (*e.g.*, require a hyperlink in the "Graphical Representation of Holdings" section to the fund's portfolio schedule)? If so, what specific additional references and hyperlinks should we require and why?

108. As proposed, funds would have the flexibility to refer investors to additional information that is available on the fund's website if the fund reasonably believes that shareholders would likely view the information as important. Should any limits be placed on this additional information? If so, why? For example, should it be limited to content that the fund has prepared?

109. Should we permit or require funds to refer investors to information at Investor.gov, such as information about how to read a shareholder report?[316] If not, why not?

110. Are there any other changes that should be made to the disclosure requirement about the availability of additional information?

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[316] The Commission's Office of Investor Education and Advocacy maintains the website as an online resource to help investors make sound investment decisions and avoid fraud. The website includes investment bulletins, alerts, guidance and tools designed to assist investors, including those owning funds, in obtaining additional information and resources on understanding and managing their investments. *See, e.g.*, Investor Bulletin: How to Read a Mutual Fund Shareholder Report (Apr. 3, 2013) ("How to Read a Mutual Fund Shareholder Report"), *available at* https://www.investor.gov/additional-resources/news-alerts/alerts-bulletins/investor-bulletin-how-read-mutual-fund-shareholder; How to Read a Mutual Fund Prospectus (June 13, 2016), *available at* https://www.investor.gov/news-alerts/investor-bulletins/how-read-mutual-fund-prospectus-part-1-3-investment-objective-strateg.

j. Householding

We are proposing to retain the provision that permits funds to explain how to revoke consent to the householding of the annual report.[317] Investors often invest in funds through a variety of individual and family accounts and, as a result, sometimes receive multiple copies of the same documents from those funds. To avoid duplication, Commission rules allow funds to deliver a single copy of a prospectus, proxy materials, and a shareholder report to investors who share the same address and meet certain other requirements.[318] This practice is known as "householding."

Rule 30e-1 permits and we propose to continue permitting the householding of fund shareholder reports if, in addition to the other conditions set forth in the rule, the fund has obtained from each investor written or implied consent to the householding of shareholder reports at such address.[319] The rule requires funds that wish to household shareholder reports based on implied consent to send a notice to each investor stating, among other things, that the investors in the household will receive one report in the future unless the investors provide contrary instructions. In addition, at least once a year, funds relying on the householding provision must explain to investors who have provided written or implied consent how they can revoke their consent. If relying on the householding provision, one way to satisfy this last

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317 *See* current rule 30e-1(f) and proposed rule 30e-1(e) and proposed Item 27A(k) of Form N-1A.

318 *See* 17 CFR 230.154 [rule 154 under the Securities Act] (permitting the householding of prospectuses); 17 CFR 240.14a-3(e)(1) [rule 14a-3(e)(1) under the Exchange Act] (permitting the householding of proxy materials other than the proxy card); and rule 30e-1 under the Investment Company Act (permitting the householding of shareholder reports).

319 *See* rule 30e-1(f); proposed rule 30e-1(b)(2).

requirement (to provide an annual notice) is to include a statement in the annual report. We propose to continue permitting funds to include this statement in the annual report.[320]

We request comment on the proposed permitted inclusion of householding-related language in the annual report:

111. Should funds be permitted to include language about how an investor can revoke consent to householding in the annual report? If not, why not? Should we prescribe specific householding-related language that funds could include in their annual reports? If so, why, and what should that language be?

112. Should we consider any change to the householding disclosure requirements or to the rule provision that permits householding of shareholder reports? If so, why?

### 3. Format and Presentation of Annual Report

In addition to the proposed content requirements for the annual report, we are proposing general instructions related to the format and presentation of the report. These proposed general instructions are designed to improve and simplify the presentation of shareholder reports and encourage funds to use plain-English, investor-friendly principles when drafting their reports.

First, we are proposing an instruction specifying that the information in the annual reports would be required to appear in the same order as would be required under the

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[320] Because the proposed annual report may only include information that Item 27A of Form N-1A specifically permits or requires, the proposed householding provision is necessary to permit funds to include a householding statement in the report. *See* Instruction 3 to proposed Item 27A(a) of Form N-1A; *see also* discussion at *supra* Section II.B.1.b.

proposed amendments to Form N-1A.[321] We are requiring that information appear in a specific order so that the information that we believe to be most salient to shareholders, such as expenses, would appear first in the report, and to promote consistency and comparison across funds.[322] The proposed ordering requirements also would place related content close together to help investors better understand the topics being discussed. For example, fund statistics and graphical representation of holdings both provide information about the fund's portfolio and therefore would be placed adjacent to one another.

In addition, the proposed general instructions to the shareholder report requirements are designed to promote effective communication between the fund and its investors. Therefore, we propose new requirements that funds use "plain English" principles for the organization, wording, and design of the annual report, taking into consideration fund shareholders' level of financial experience.[323] Specifically, the proposed instructions would direct funds to be concise and direct and to use short sentences, active voice, and definite, concrete, everyday words. Funds would be instructed not to use legal jargon, highly technical business terms (unless they are clearly explained) or multiple negatives. Funds also would be instructed to write their annual report as if addressing the investor, using terms such as "you" or "we." The proposed instructions also would direct funds to avoid the use of vague or

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321 *See* Instruction 1 to proposed Item 27A(a) of Form N-1A. This proposed instruction would also include provisions that are applicable to an annual report that appears on a website or is otherwise provided electronically. *See infra* footnote 331 and accompanying text.

322 While investors may be more likely to compare prospective investments using a prospectus, an investor may use the proposed annual report to compare funds he or she already owns and assess how the investor's mix of funds fits into his or her overall investment portfolio. A consistent presentation would assist in this analysis.

323 *See* Instruction 6 to proposed Item 27A(a) of Form N-1A.

imprecise boilerplate, as we believe this type of language would be unlikely to inform an investor effectively. The proposed instructions also direct funds to use white space, and implement other design features to make the annual report easy to read.

Further, the proposed instructions would encourage funds to consider using, as appropriate, a question-and-answer format, charts, graphs, tables, bullet lists, and other graphics or text features as a way to help provide context for the information presented.[324] We believe that these alternative ways of presenting information could increase readability and that this proposed instruction could encourage funds to use these presentation options, where appropriate.

In addition, the proposed instructions would include legibility requirements for the body of every printed annual or semi-annual shareholder report and other tabular data.[325] Those requirements would be consistent with the legibility requirements that apply to prospectuses.[326] We believe that the proposed legibility requirements would help ensure that shareholder reports are easily readable by investors.

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[324] *See* Instruction 8 to proposed Item 27A(a) of Form N-1A; *see also, e.g.*, Susan Kleimann, *Making Disclosures Work for Consumers*, Presentation to the SEC's Investor Advisory Committee (June 14, 2018) ("Kleimann"), *available at* https://www.sec.gov/spotlight/investor-advisory-committee-2012/iac061418-slides-by-susan-kleimann.pdf (encouraging, for example, using question-and-answer format, the using headings to make structure clear, using a strong design grid to organize elements, making line length readable, and using common words and sentence constructions as ways of designing disclosure to promote readability).

[325] *See* Instruction 13 to proposed Item 27A(a) of Form N-1A. In an annual or semi-annual shareholder report posted on a website or otherwise provided electronically, the proposed instructions would provide that a fund may satisfy legibility requirements applicable to printed documents by presenting all required information in a format that promotes effective communication as described in Instruction 8 to proposed Item 27A(a).

[326] 17 CFR 230.430 [Rule 420 under the Securities Act] generally provides that the body of all printed prospectuses and all notes to financial statements and other tabular data included therein be in roman type at least as large as legible 10-point modern type. However, where a

We request comment on the proposed general instructions regarding the format and presentation of the annual report, including:

113. Would the proposed general instructions provide clear guidance to funds when preparing an annual report? Should any of the proposed instructions be modified or not be included? If so, which ones, how should they be modified (if applicable), and why?

114. The proposed general instructions prescribe the order of information in the annual report. Is requiring a specific order for that information appropriate? Should the order be changed? If so, how? For instance, are there certain items that funds should disclose earlier (or later) in the report to be more consistent with shareholders' general areas of interest? Should we, for example, require disclosure of material fund changes earlier in the report? Does the proposed order of disclosure items appropriately place related items close together, or are there changes we could make to improve a shareholder's ability to understand how different disclosure items relate to one another?

115. Would the proposed general instruction that directs funds to comply with legibility requirements assist investors by helping to promote the readability of shareholder reports? Are there other requirements that we should include to assist investors with the readability of shareholder reports?

116. Are there other alternative ways of presenting information that we should encourage funds to consider using?

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prospectus is distributed through an electronic medium, rule 420 provides, in part, that issuers may satisfy legibility requirements applicable to all printed documents, by presenting all required information in a format readily communicated to investors.

### 4. Electronic Annual Reports

We recognize that fund shareholders may access their annual reports and other regulatory documents online, rather than (or in addition to) receiving the reports in paper format. Shareholders could elect to receive their annual reports through electronic delivery.[327] Additionally, under our proposal, funds that rely either on rule 498 or on proposed rule 498B would have to make the most recent annual report available online.[328] We also recognize that investors are increasingly relying on mobile applications for financial information, and we anticipate that funds may wish to make annual reports available in a format that these applications support (for example, electronic presentations other than a static email or PDF file). Presenting fund information—including annual reports—electronically has the potential advantage of permitting greater innovation and information-tailoring than the use of a static paper document. For example, funds could overlay electronic tools onto online disclosure, such as calculators, hover-over or pop-up information, and interactive features. Presenting information electronically could also improve the content of fund disclosures by, for example, allowing investors to customize certain fund disclosures, such as fees, expenses, and performance, based on an investor's individual circumstances. However, we appreciate that the use of electronic channels, and the overlay of electronic tools onto required regulatory

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[327] Under this proposal, shareholder reports must be delivered in paper unless, consistent with Commission guidance, a shareholder elects electronic delivery. *See supra* footnote 21 and accompanying text.

[328] *See infra* Sections II.F.3.a and II.J.

documents, may present both practical and legal questions for fund registrants and other market participants.[329]

In light of this, we are proposing instructions that are designed to clarify requirements for electronic annual reports and to promote the use of interactive, user-friendly design features that may be tailored to meet individual investors' needs and improve investor engagement. We are tailoring certain proposed instructions to reflect that annual reports may be electronic as well as paper-based. First, the proposed requirements for the annual report's "cover page" are also applicable to the "beginning" of the report, which is designed to reflect that electronic reports may not have a physical page at their beginning.[330] Similarly, the proposed instruction that would provide an ordering requirement for the contents of an annual report also includes a provision for annual reports that appear on a website or are otherwise provided electronically.[331] This proposed instruction specifies that information should be organized in a manner that gives each item similar prominence, and presents the information in the same order, as that provided by the order the proposed instruction prescribes. For instance, an annual report available on a website could satisfy this requirement if each required disclosure item is presented with equal prominence in a separate tab and the order of the tabs follows the prescribed order, such as from left-to-right or top-to-bottom. Similarly, a

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329 For example, the legal requirements associated with a particular online tool may vary based on what information is present and how it is presented. We discuss these issues in more detail below. In addition, it may be costly to produce, maintain and update electronic tools and produce tools that function well on a variety of devices (such as phones, tablets and computers).

330 *See supra* footnote 136.

331 *See* Instruction 1 to proposed Item 27A(a) of Form N-1A.

mobile application could satisfy this requirement if the shareholder report navigation screen presents each shareholder report item with equal prominence and follows the prescribed order of information.[332]

We are also proposing instructions that would provide additional flexibility for funds to add additional tools and features to annual reports that appear on a website or are otherwise provided electronically.[333] The proposed instructions would encourage funds to use online tools designed to enhance an investor's understanding of material in the annual reports. This could include, for example: video or audio messages, mouse-over windows, pop-up definitions or explanations of difficult concepts, chat functionality, and expense calculators. It also includes other forms of electronic media, communications, or tools designed to enhance an investor's understanding of material in the annual report. For example, this could include the ability to customize expense, performance or holdings information, or to make performance information more interactive.[334] We believe that permitting and encouraging these design features would allow for a more interactive and user-friendly experience and would improve investor engagement. When using interactive graphics or tools, funds are permitted to include instructions on their use and interpretation.[335] In addition, the proposed general instructions clarify that any explanatory or supplemental information that funds

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332 *See infra* footnotes 338-340 and related discussion regarding the recordkeeping and record retention requirements associated with such electronic tools.

333 *See* Instruction 8 to proposed Item 27A(a) of Form N-1A.

334 For example, one feature may be the ability to hover over a point on the performance line graph to see the date and dollar value associated with that point.

335 *See* Instruction 10 to proposed Item 27A(a) of Form N-1A.

provide as online tools may not obscure or impede understanding of the required disclosures.[336]

The default presentation of the content of any electronically presented annual report must use the value that the applicable requirement under Item 27A prescribes.[337] For example, while the default presentation in the expense example and performance line graph must be on a $10,000 assumed investment, a feature may permit an investor to enter a different amount but the investor must, as a default, be able to view the assumed amount.[338] One result of this instruction would be that when the contents of a fund's annual reports are derived from the fund's audited financial statements, the default online presentation would be the audited figures.

Under the general instructions we are proposing, any information that is included in online tools that the fund uses, but that is not included in the annual report that the fund files on Form N-CSR, would have the same status under the Federal securities laws as any other website or other electronic content that the fund produces or disseminates.[339] For example, if a fund includes a video providing more detail about the fund's investments and performance, the video may, based on the facts and circumstances, be an advertisement subject to rule

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336 *See id*. (providing that any supplemental information may not, because of the nature, quantity, or manner of presentation, obscure or impede understanding of the information that must be included).

337 *See* Instruction 8 to proposed Item 27A(a) of Form N-1A.

338 *See* Item 27A(c) and (d) of Form N-1A.

339 *See* Instruction 8 to proposed Item 27A(a) of Form N-1A. That instruction would provide, in part: "Any information that is not included in the annual or semi-annual shareholder report filed on Form N-CSR shall have the same status, under the Federal securities laws, as any other website or electronic content that the Fund produces or disseminates."

482.[340] Under these circumstances, the fund would be subject to the same liability standard and filing requirements that attach to any other rule 482 advertisement. This proposed instruction is designed to remind funds about liability and any filing requirements associated with any additional information that a fund chooses to include with the online version of its annual report (other than the shareholder report information that it files with the Commission on Form N-CSR). This supplemental information would also be subject to a record retention requirement.[341]

Finally, we are proposing an instruction providing that if the shareholder report references other information that is available online, the report should include a link or some other means of immediately accessing that information.[342] The proposed instruction states

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340 17 CFR 230.482. An investment company advertisement that complies with rule 482 is deemed to be a section 10(b) prospectus for purpose of section 5(b)(1) of the Securities Act. As a section 10(b) prospectus, an investment company advertisement is subject to liability under section 12(a)(2) of the Securities Act and the antifraud provisions of the Federal securities laws.

341 Section 31(a) of the Investment Company Act imposes recordkeeping obligations on registered investment companies, and also requires that each investment adviser (that is not a majority-owned subsidiary), depositor, and principal underwriter for a registered investment company maintain and preserve such records as the Commission shall prescribe to record that person's transactions with the registered investment company. The Commission prescribes those recordkeeping requirements under 17 CFR 270.31a-1 [rule 31a-1] and rule 31a-2. Specifically, rule 31a-1 provides the records that a registered investment company must maintain; rule 31a-2 provides the retention period for those records.

To address funds' retention of any supplemental information that a fund chooses to include in its online version of its annual report (other than the shareholder report information that the fund files with the Commission on Form N-CSR), we are proposing a conforming change to rule 31a-2 that would require that every investment company preserve for a period not less than six years, the first two years in an easily accessible place, any shareholder report required by §270.30e-1 (including any version posted on a website or otherwise provided electronically) that is not filed with the Commission in the exact form in which it was used. *See* proposed rule 31a-2(a)(7).

342 *See* Instruction 9 to proposed Item 27A(a) of Form N-1A.

that, for example, the fund should provide hyperlinks to the fund's prospectus and financial statements if the information is available online. The proposed instruction also states that, in an annual report that is delivered in paper format, funds may include website addresses, QR codes, or other means of providing access to such information.[343] We believe these approaches are consistent with a layered approach to disclosure, and that providing ready access to the information that a shareholder report references (but does not directly include) would be a convenient feature for investors. Under these requirements, a fund must include a link specific enough to lead investors directly to a specific item or alternatively to a central site with prominent links to the referenced information. For example, a reference to a fund's prospectus could include a direct link to the prospectus or might include a link to the landing page that includes prominent links to several fund documents, such as the summary prospectus, prospectus, SAI and annual reports. However, the link cannot lead investors to a home page or section of the fund's website other than on which the specified item is posted. This proposed requirement is designed to permit the investor easily to locate (*i.e.,* without numerous clicks) the information in which he or she is interested.

We request comment on the proposed general instructions regarding electronic annual reports, including:

117. Are the proposed instructions that are designed to reflect that annual reports may be electronic as well as paper-based appropriate? Specifically, would the requirements for the "beginning" of the shareholder report clarify the contents that the Commission would

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[343] *See id*.

require to appear first in electronically presented annual reports? Similarly, is the proposed instruction permitting an "equivalent" order (to that prescribed in Form N-1A) for annual reports that appear on a website or are otherwise provided electronically (such as a mobile application) appropriate, and is this instruction clear? If not, why not? Are there any other instructions that would help clarify content and format requirements for electronic annual reports?

118. The proposed general instructions would encourage a fund to use online tools for annual reports that are available electronically. Would this proposed instruction help to explain the content required to be included in the annual report? Is permitting the additional information conveyed by these tools appropriate? Should there be any limits on the types of additional information that funds present along with electronic versions of their annual reports, in addition to the limits prescribed by the proposed instructions (*e.g.*, that explanatory or supplemental information be responsive to the proposed shareholder report content requirements, that it not be misleading or impede understanding of the required disclosures, and that the default presentation contents in electronically presented shareholder reports be based on the same assumptions required by Item 27A)? For instance, should we permit a fund's expense presentation to include an explanation that compares a fund's expenses to its peer group?

119. The federal securities laws generally do not prohibit a fund from posting a version of its annual or semi-annual shareholder report translated into a foreign language on

its website.[344] Further, we understand that funds occasionally will include online tools, such as translators, on their websites to assist non-English speaking investors and investors with disabilities to assess information about the fund. Should the Commission address the translation of a shareholder report or other documents filed with the Commission (such as a prospectus) into a foreign language and the transmission of those documents to shareholders? If so, what factors should the Commission consider? Should the Commission address foreign language shareholder reports (and foreign language versions of other fund regulatory materials) not only for open-end funds, but also other types of funds? If the Commission were to amend its rules to address the transmission of foreign language shareholder reports, should it also require foreign language versions of shareholder reports to be filed with the Commission?

120. As proposed, any additional information that a fund presents in connection with an electronic version of its annual report that is not included in the annual report filed on Form N-CSR would have the same status under the Federal securities laws as any other website or electronic content that the fund produces or disseminates. Is this approach appropriate? Notwithstanding this proposed instruction, should we require a fund to file this additional information with the Commission? If so, why, and through what channels should funds be required to file the additional information (*e.g.*, on Form N-CSR)? Is it appropriate to

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344 *See supra* paragraph accompanying footnotes 339 through 341 and accompanying text (discussing the status under the Federal securities laws of information that funds include on their websites).

provide investors additional information online that would not have to be provided in paper to investors who request paper documents? If not, why not?

121. Is it appropriate to require that any electronic version of an annual report provide a means of facilitating access (such as a hyperlink) to any information that is referenced in the annual report that is available online? If not, why not? Similarly, is it appropriate to permit an annual report that is delivered in paper to include website addresses, QR codes, or other means of facilitating access to such information? Should the use of website addresses and QR codes be required for annual reports delivered in paper?

122. As proposed, the additional explanatory or supplemental information permitted in an electronic annual report may not, because of the nature, quantity, or manner of presentation, obscure or impede understanding of the information that must be included. Are these restrictions appropriate? If not, why not? Should this instruction also specify that any explanatory or supplemental information that funds provide as online tools be responsive to the proposed content requirements for shareholder reports? Could this additional restriction prevent funds from providing information that some shareholders might find useful? Or would it be helpful in furthering the goal of ensuring that explanatory or supplemental information not obscure understanding of the required disclosures?

123. Rather than what we are proposing, should funds be able to transmit multiple-series annual reports to shareholders but be required to provide tools for tailoring the online presentation of the disclosure to an individual series? Should we require multi-class funds to provide tools for tailoring the online presentation of the disclosure to an individual class? Why or why not?

124. When a fund's annual report is available on a website or otherwise available electronically, should the investor be warned when he or she leaves the annual report content and moves to other fund content? If so, why? Should all annual report content (particularly when shown on multiple pages or tabs), be clearly identified as being part of the annual report? If not, why not?

125. Do the proposed general instructions sufficiently encourage electronic design and delivery of the annual report? Are the general instructions sufficiently flexible to permit delivery on phones, tablets, and other devices and to accommodate information conveyed via videos, interactive graphics, or tools and calculators? How can the Commission encourage funds to make fuller use of innovative technology to enable more interactive, user-friendly annual reports?

### F. Semi-Annual Shareholder Report

We are proposing to specify the design and content of funds' semi-annual reports through new Item 27A of Form N-1A. These design and content specifications are similar to those we are proposing for funds' annual reports.[345]

The table below summarizes the proposed content that funds would include in their semi-annual reports and compares the proposal to current semi-annual report disclosure requirements.

***TABLE 3: OUTLINE OF PROPOSED SEMI-ANNUAL REPORT***

| | *Description* | *Proposed Item of Form N-1A* | *Current Item of Form N-1A Containing* |
|---|---|---|---|

[345] *See supra* section II.B.

| | | | *Similar Requirements* |
|---|---|---|---|
| Cover Page or Beginning of Report | Fund/Class Name(s) | Item 27A(b) | -- |
| | Ticker Symbol(s) | Item 27A(b) | -- |
| | Principal U.S. Market(s) for ETFs | Item 27A(b) | -- |
| | Statement Identifying as "Semi-Annual Shareholder Report" | Item 27A(b) | -- |
| | Legend | Item 27A(b) | -- |
| Content | Expense Example | Item 27A(c) | Item 27(d)(1) |
| | Management's Discussion of Fund Performance (optional) | Item 27A(d) | Item 27(b)(7) |
| | Fund Statistics | Item 27A(e) | -- |
| | Graphical Representation of Holdings | Item 27A(f) | Item 27(d)(2) |
| | Material Fund Changes (optional) | Item 27A(g) | -- |
| | Changes in and Disagreements with Accountants | Item 27A(h) | Item 27(b)(4) |
| | Statement Regarding Liquidity Risk Management Program | Item 27A(i) | Item 27(d)(6)(ii) |
| | Availability of Additional Information | Item 27A(j) | Item 27(d)(3) through(5) |

### 1. Scope and Contents of the Proposed Semi-Annual Report

As with the proposed annual report, we propose to limit the scope of funds' semi-annual reports in several respects to reduce the overall length and complexity of these reports. First, we propose to require a fund registrant to prepare separate semi-annual reports for each

series of the fund.[346] Second, we propose generally to limit the content a fund may include in its semi-annual report to the information that Item 27A of Form N-1A specifically permits or requires.[347] However, if a fund's particular circumstances may cause the required disclosures to be misleading, the fund may add additional information that is necessary to make the required disclosure items not misleading. Finally, the proposed amendments to Form N-1A would not permit a fund to incorporate by reference any information into its semi-annual report.[348] Collectively, these restrictions parallel our proposed scope and content limitations for annual reports.[349] As is the case today, the proposed semi-annual report would not be subject to page or word limits. As noted above, we believe a set limit could constrain appropriate disclosure or lead funds to omit material information. However, we believe that the proposed limits on the contents of shareholder reports should nonetheless limit their length in support of our goal of concise, readable disclosure.[350]

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346 *See* Instruction 4 to proposed Item 27A of Form N-1A.

347 *See* Instruction 3 to proposed Item 27A of Form N-1A.

348 *See* Instruction 5 to proposed Item 27A of Form N-1A.

349 *See supra* Section II.B.1.a and II.B.1.b; *see also* Instructions 3, 4, and 5 to proposed Item 27A of Form N-1A.

350 Because we estimate that the proposed annual report would be approximately 3 to 4 pages in length, we similarly estimate that the proposed semi-annual report (which would include fewer required disclosure items than the proposed annual report) would be approximately 3 to 4 pages in length or shorter. In the case of paper delivery, this may allow funds to deliver semi-annual reports using a trifold self-mailer (or a similarly concise mailing). *See supra* footnote 134 and accompanying text.

The cover page or beginning of the proposed semi-annual report would essentially contain the same content as the annual report (with the only difference being references to a "semi-annual report" instead of an "annual report").[351]

Semi-annual reports currently include an expense example.[352] The proposed semi-annual report would retain an expense example, which would be subject to the same content requirements as the expense example in the proposed annual report.[353]

We do not currently require MDFP in semi-annual reports. Under our proposal, semi-annual reports similarly would not require MDFP, but funds could include this disclosure on an optional basis.[354] We understand that it is currently common for funds to include MDFP in their semi-annual reports, and we believe that continuing to allow this disclosure would enable funds to identify factors that could help investors better contextualize other information disclosed in the semi-annual report. However, any such disclosure would have to comply with the proposed content requirements for MDFP in annual reports.[355]

Under our proposal, semi-annual reports, like annual reports, would have to include certain fund statistics, including the fund's: (1) net assets, (2) total number of portfolio holdings, and (3) portfolio turnover rate.[356] This new disclosure requirement for semi-annual

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351 *See* proposed Item 27A(b) of Form N-1A; *see also supra* Section II.B.2.a.

352 *See* Item 27(d)(1) of Form N-1A.

353 *See* proposed Item 27A(c) of Form N-1A; *see also supra* Section II.B.2.b. The expense example in the semi-annual report would cover a 6-month reporting period.

354 *See* proposed Item 27A(d) of Form N-1A.

355 *See supra* Section II.B.2.c.

356 *See* proposed Item 27A(e) of Form N-1A.

reports would parallel proposed required disclosures in annual reports.[357] As in annual reports, this proposed disclosure requirement is intended to provide succinct fund disclosures in a format that investors may be more likely to review than long narratives, and is designed to help contextualize other disclosures required in semi-annual reports.[358] In addition, a fund could disclose any additional statistics that it believes would help shareholders better understand the fund's activities and operation during its most recent fiscal half-year.[359]

Semi-annual reports currently include a graphical representation of holdings.[360] For the same reasons that we propose to retain the current requirements for the graphical representation of holdings in the annual report (with revisions designed to improve the presentation), we propose to retain the current requirements for the graphical representation of holdings in funds' semi-annual reports.[361] The graphical representation of holdings in the proposed semi-annual report would be subject to the same content requirements as in the proposed annual report.[362]

We do not currently require a discussion of material changes to the fund in semi-annual reports. Under our proposal, such disclosure would still not be required, but funds

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357 We note, however, that semi-annual reports currently must disclose net assets and portfolio turnover rate as part of the requirement to disclose condensed financial information. *See* Item 27(c)(2) of Form N-1A; *see also supra* footnotes 243 and 249 and Section II.B.2.d.

358 *See supra* text accompanying footnotes 243 through 250.

359 *See* proposed Item 27A(e) of Form N-1A; *see also supra* text accompanying and following footnote 251.

360 *See* Item 27(d)(2) of Form N-1A.

361 *See supra* footnotes 260-262 and accompanying text.

362 *See* proposed Item 27A(f) of Form N-1A; *see also supra* Section II.B.2.e.

could include this disclosure on an optional basis.[363] We believe that permitting, but not requiring, this disclosure is appropriate because we anticipate that it would be common under the proposed rules for fund shareholders to receive notices of material changes as they occur throughout the year (*i.e.*, the notices that proposed rule 498B would require, or as prospectus "stickers" for those funds that do not rely on proposed rule 498B).[364] Requiring a discussion of material changes in the semi-annual report could be duplicative in light of these other notices. However, we are permitting funds to include this disclosure in their semi-annual reports because we anticipate that there could be circumstances in which discussing material changes could help investors better contextualize other information in the semi-annual report. Any such disclosure would have to comply with the proposed content requirements for the discussion of material changes in annual reports.[365]

As discussed above, we are proposing to require funds to include, under certain conditions, a statement in their semi-annual or annual reports regarding their liquidity risk management program.[366] This statement would include a brief summary of: (1) the key factors or market events that materially affected the fund's liquidity risk during the reporting period, (2) the key features of the fund's liquidity risk management program, and (3) the effectiveness

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363 *See* proposed Item 27A(g) of Form N-1A.

364 *See infra* Section II.F.3.b (discussing the notices of material changes that the proposal would require, for funds relying on proposed rule 498B); *see also infra* footnote 870 and accompanying text (estimating that 90 percent of funds would rely on proposed rule 498B instead of sending annual prospectus updates to existing shareholders).

365 *See supra* Section II.B.2.f.

366 *See supra* Section II.B.2.g.

of the fund's liquidity risk management program over the past year.[367] Depending on the timing of the fund's board's review of the fund's liquidity risk management program, the fund would include the statement in either its annual or semi-annual report.[368] If the board were to review the liquidity risk management program more frequently than annually, a fund could choose to include the discussion of the program's operation and effectiveness over the past year in the fund's annual and/or semi-annual report, but this discussion would not be required to be included in both reports.[369]

Under current shareholder report requirements, funds must include statements regarding the availability of certain information not included in the semi-annual report, namely the fund's: (1) quarterly portfolio schedule; (2) proxy voting policies and procedures; and (3) proxy voting record.[370] Under our proposal, the semi-annual report would have to similarly include a brief, plain English statement that certain additional fund information is available on the fund's website, including, as applicable, the fund's prospectus, financial statements, quarterly portfolio schedule, and proxy voting record.[371] The statement could also reference other information on the fund's website that the fund reasonably believes

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367 *See* proposed Item 27A(i) of Form N-1A.

368 *See supra* footnote 307 and accompanying text.

369 *See* Instruction 3 to proposed Item 27A(i) of Form N-1A. Current Form N-1A includes the same instruction providing flexibility for a fund whose board reviews the liquidity risk management program more frequently than annually to include the discussion of the program in either the semi-annual report or the annual report, but not both. *See* Instruction to Item 27(d)(6)(ii) of Form N-1A.

370 *See* Items 27(d)(3) through (5) of Form N-1A.

371 *See* proposed Item 27A(j) of Form N-1A.

shareholders would view as important.[372] In addition, if the shareholder report appears on a fund's website or otherwise is provided electronically, the fund must provide a means of facilitating access to that additional information (such as a hyperlink).[373] Collectively, these requirements would be the same as the proposed requirements with regard to the availability of additional information in annual reports.[374]

We request comment generally on the proposed scope and content requirements for funds' semi-annual reports, and specifically on the following issues:

126. Is the proposed scope for semi-annual reports appropriate? To the extent the Commission changes the proposed scope of annual reports, should the Commission adopt those same changes for semi-annual reports? In contrast, are there any unique scope considerations for semi-annual reports, as opposed to annual reports?

127. Are the proposed content requirements for semi-annual reports appropriate? To the extent that the Commission adopts changes to the proposed content requirements for annual reports, should the Commission adopt those same changes for semi-annual reports? In contrast, are there any unique content considerations for semi-annual reports, as opposed to annual reports? For example, are there any amendments we should make to the proposed MDFP requirement to clarify disclosure obligations in the context of a semi-annual reporting period, as opposed to an annual reporting period? As another example, should we require the statement regarding the fund's liquidity risk management program in both the annual and the

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372 *Id.*

373 *See* Instruction 1 to proposed Item 27A(j) of Form N-1A.

374 *See id.*; *see also supra* Section II.B.2.g.

semi-annual reports, instead of providing the flexibility to include this disclosure in either report (depending on the timing of the board's review of the program)?

128. Is it appropriate to permit, but not require, funds to include MDFP and a discussion of material fund changes in their semi-annual reports? Why or why not? Would funds include this optional disclosure in their semi-annual reports, and if so, why? Should we permit any additional flexibility with regard to the content requirements of semi-annual reports and, if so, are there any corresponding changes that we should make to the proposed form amendments to implement such flexibility?

129. Should the Commission make any changes to the frequency of fund shareholder reports? For example, should the Commission require the transmittal of fund shareholder reports more or less frequently than on a semi-annual basis?[375] To what extent would changes in the frequency of shareholder reports impact investors and their investment decision-making?

### 2. Format and Presentation of Semi-Annual Report

Under our proposal, as discussed below, the semi-annual report would be generally subject to the same format and presentation requirements as the annual report.[376]

Information in semi-annual reports would be required to appear in the same order as the corresponding form items appear in the proposed amendments to Form N-1A.[377] Any

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375 *See infra* Section II.C.3.b (seeking comment on, among other things, an alternative approach in which the requirement to transmit a semi-annual report could be satisfied instead by updating certain information that appears on a fund website either semi-annually or on some more-frequent basis).

376 *See* Section II.B.3.

377 *See* Instruction 2 to proposed Item 27A(a) of Form N-1A. This proposed instruction would

information that a fund could choose to include in the semi-annual report would also be subject to this proposed ordering requirement (that is, it would have to be presented in the same order as the parallel mandatory disclosures in annual reports).[378] Like the parallel requirement for annual reports, this proposed ordering requirement for semi-annual reports is designed to ensure that information we believe is most salient to shareholders would appear first in the report. The proposed ordering requirement also is designed to promote consistency and comparison across funds and would place related report contents close together.

The other proposed instructions for annual reports' format and presentation discussed above also would apply to semi-annual reports. These include the proposed "plain English" instructions for the organization, wording, and design of the report.[379] They also include the proposed instructions encouraging funds to consider using, as appropriate, a question-and-answer format, charts, graphs, tables, bullet lists, and other graphics or text features as a way to help provide context for the information presented.[380]

We request comment generally on the proposed format and presentation requirements for funds' semi-annual reports, and specifically on the following issues:

130. Are the proposed format and presentation requirements for semi-annual reports appropriate? To the extent that the Commission adopts rules that include changes to these

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also include provisions that are applicable to a semi-annual report that appears on a website or is otherwise provided electronically. *See infra* Section II.C.3.

378 *Id.*

379 *See* Instruction 6 to proposed Item 27A(a) of Form N-1A; *see also supra* footnote 323 and accompanying paragraph.

380 *See* Instruction 8 to proposed Item 27A(a) of Form N-1A; *see also supra* footnote 324 and accompanying paragraph.

requirements for annual reports, should the Commission adopt those same changes for semi-annual reports? In contrast, are there any unique considerations with regard to the format and presentation requirements for semi-annual reports, as opposed to annual reports?

131. Under our proposal, semi-annual reports may optionally include certain disclosures that would be required to be included in annual reports.[381] Is it appropriate to require any such optional disclosures to be presented in the same order as the information would be presented in annual reports? To what extent could this cause confusion for investors reading semi-annual reports, given that some semi-annual reports might contain additional optional disclosures interspersed between required disclosures? In contrast, to what extent would it be confusing to require these optional disclosures to be presented in a different order (*e.g.*, following all required disclosures)?

### 3. Electronic Semi-Annual Reports

#### a. Proposed Instructions and Requirements

Our proposed instructions for electronic annual reports, including those that promote the use of interactive, user-friendly electronic design features, would also apply to semi-annual reports.[382] Among other things, these proposed instructions would (1) provide ordering and presentation requirements for semi-annual reports that appear on a website or are otherwise provided electronically, (2) provide additional flexibility for funds to add additional

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381 *See supra* footnotes 354 and 355 and accompanying text (discussing the proposal to permit, but not require, MDFP to be included in semi-annual reports) and *supra* footnotes 363 through 365 (discussing the proposal to permit, but not require, a discussion of material fund changes to be included in semi-annual reports).

382 *See supra* Section II.B.4.

tools and features to semi-annual reports that appear on a website or are otherwise provided electronically, and (3) require a semi-annual report to include a link or some other means of immediately accessing information referenced in the report that is available online.[383]

We request comment generally on the proposed instructions regarding funds' electronic semi-annual reports, and specifically on the following issues:

132. Are the proposed instructions regarding funds' electronic semi-annual reports appropriate? Should any of those instructions be modified or should any other revisions be made to the Commission's proposal with regard to electronic shareholder reports, in order to better reflect investor preferences or to encourage the use of electronic shareholder reports by funds?

b. Alternatives Involving Electronic Semi-Annual Reports

Currently, funds are required to transmit semi-annual reports to shareholders, and—as with annual reports—they will be able to satisfy this requirement in certain cases under rule 30e-3 by posting the report (and certain other required materials) online and providing a notice of the reports' online availability.[384] We considered proposing alternative requirements for transmitting semi-annual reports. For example, we considered allowing funds to satisfy the requirement to transmit semi-annual reports by filing certain information on Form N-CSR. Also, in light of current internet use trends, we considered allowing funds to satisfy the

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383 *Id*.

384 *See supra* footnote 22 and accompanying text. The Commission has previously interpreted the meaning of "transmit" in this context. *See* discussion of previous Commission guidance on the use of electronic media for delivery purposes, *supra* footnote 21.

requirement to transmit a semi-annual report by updating certain information on a fund website either semi-annually or on some more-frequent basis.

For example, we understand that many funds currently publish monthly or quarterly fact sheets online.[385] These fact sheets tend to include much of the information that would appear in the proposed requirements for funds' semi-annual reports, and often present such information in a concise format that may be appealing to investors. We understand that some shareholders or financial professionals may use fact sheets to monitor fund investments because, among other reasons, fact sheets include more up-to-date performance information than shareholder reports or prospectuses. While we are not proposing an approach in which a fund's obligation to transmit semi-annual reports would be deemed to be satisfied if the fund were to merely post updated fact sheets (or similar documents) online on a semi-annual or more-frequent basis, we are soliciting comment on potential disclosure alternatives that would leverage information that many funds already provide on their websites.

An approach that would leverage frequently updated website content, such as fund fact sheets, raises the consideration of how frequently required regulatory disclosures should ideally be provided to fund shareholders. Our proposed semi-annual report requirement parallels current requirements with regard to the frequency of shareholder reports, which are statutorily mandated to be transmitted on a semi-annual basis.[386] We are currently unaware of any evidence indicating that fund investors specifically desire shareholder reports to be

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385 *See generally supra* text following footnote 23.

386 *See* section 30(e) of the Investment Company Act.

provided less frequently.[387] The proposed approach also reflects our view that the proposed amendments to the contents of annual and semi-annual reports represent the information that would be most useful and salient to investors in assessing and monitoring their fund investments.

More generally, we considered the effects and benefits of a disclosure framework in which fund shareholders have regulatory information "pushed" to them on a semi-annual basis (*e.g.*, the required direct transmission of shareholder reports twice a year) versus a hypothetical disclosure framework in which fund shareholders would have the onus to periodically "pull" regulatory disclosures from various sources (*e.g.*, information that is periodically updated on a fund website).[388] We are concerned that such a hypothetical disclosure framework would represent a significant change in current practices. We are also concerned that a "pull"-only disclosure framework may not be aligned with investor preferences. Although we understand that some investors prefer receiving fund disclosure electronically (*e.g.*, through email, mobile application, or website availability), we do not have evidence that these investors would prefer a disclosure approach in which they would receive

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387 *See, e.g.,* Broadridge Comment Letter II. *See also* ICI Comment Letter I (asserting that a streamlined shareholder report should be required on the same semi-annual frequency as the current shareholder report). *But see supra* footnotes 54 to 55 and accompanying text (discussing some investors' concerns about the volume and frequency of fund disclosure materials they currently receive).

388 For example, rule 30e-3 could be understood as a hybrid "push/pull" disclosure framework in which notices are pushed out to investors to notify them that shareholders reports have been posted online and are available to be pulled down. *See* rule 30e-3(c). In addition, rule 30e-3 allows shareholders to elect to remain in a pure "push" disclosure framework in which those shareholders will continue to have shareholder reports directly delivered to them. *See* rule 30e-3(f).

no notification that updated disclosures are available.[389] We recognize that a hypothetical disclosure framework could require funds to "push" to investors a short notice that updated information is available online, similar to the current approach under rule 30e-3. However, rule 30e-3 contemplates notices being provided semi-annually. To the extent that, under the hypothetical disclosure framework, funds would update their online materials more frequently than semi-annually, providing notices each time that online materials were updated could be costly and could dissuade funds from updating these materials. Moreover, we understand that some investors generally prefer to receive at least certain fund information in paper format.[390] We recognize that there are other possible permutations of these disclosure approaches (for example, providing a notice of updated online information only semi-annually or permitting a fund to rely on rule 30e-3 with respect to the requirement to provide semi-annual reports, while continuing to require funds to provide annual reports directly to shareholders), and we request comment on these possible approaches below.

In addition, potential regulatory challenges and unintended consequences could result from such a hypothetical disclosure framework. For example, as discussed below, we seek comment regarding the extent to which this hypothetical framework could result in a bifurcated disclosure system. That is, we ask about the effects on fund investors if certain funds would no longer transmit semi-annual reports directly and instead would update information posted online, while other funds would continue to transmit semi-annual reports directly.

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389 *See supra* footnote 70 and accompanying text.

390 *See supra* footnotes 71 and 72 and accompanying text.

We request comment generally on the alternatives to the proposed semi-annual report transmission requirement that we considered, and specifically on the following issues:

133. Should the Commission require the direct transmission of semi-annual reports, as proposed? Alternatively, should the Commission adopt different conditions for satisfying this transmission requirement? For example, should funds be permitted to satisfy this requirement by filing certain information on Form N-CSR, pursuant to certain conditions? If so, what information should be filed, and what conditions would be appropriate? As another example, under the proposal, funds registered on Form N-1A would no longer be permitted to rely on rule 30e-3 to satisfy annual and semi-annual report transmission requirements.[391] Should we instead continue to permit these funds to rely on rule 30e-3 as an alternative method of transmitting their semi-annual reports (while, as proposed, no longer permitting them to rely on the rule with respect to annual reports)? What evidence is there (for example, of investor preferences) to support different transmission requirements for semi-annual reports versus annual reports?

134. As a further alternative, would it be appropriate for the Commission to permit funds to satisfy their obligations to transmit semi-annual reports by updating certain information that appears on their websites (for example, updating a fund fact sheet), either semi-annually or on some more frequent basis? If so, what frequency and which information would be appropriate? Would it be appropriate to require a fund's website to include all of the information that we are proposing that funds include in their semi-annual reports, a subset of

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[391] *See infra* Section II.G.

this information, or different information? To what extent should the Commission specify the content, presentation, and/or accessibility requirements for such information, and what should these requirements be? How, if at all, should funds be required to inform shareholders that updated information is available on their websites? Should there be any other conditions for a fund to be able to satisfy its semi-annual report transmission obligations in this way, and if so what should they be? To what extent should the Commission consider or address the fact that, pursuant to rule 482 under the Securities Act, fact sheets and other information that funds make available online are generally considered to be omitting prospectuses, and are thus subject to prospectus liability that does not apply to shareholder reports? Should information that funds make available online under this alternative be required to be filed with the Commission? To what extent would this alternative approach result in a bifurcated disclosure system, as described above? What would be the effects on investors and those who wish to review semi-annual reports, if semi-annual reports were only prepared by some, but not all, funds? Would this alternative be aligned with investor preferences for fund shareholder report disclosure? Would it otherwise raise any investor protection concerns, and if so, what concerns?

135. Are there any further alternatives the Commission should consider with regard to semi-annual reports specifically, or reports that the fund would transmit on an other-than-annual basis generally? To what extent should any of these alternatives provide special consideration for electronic shareholder reports?

### G. New Form N-CSR and Website Availability Requirements

We are proposing to amend Form N-CSR and rule 30e-1 to implement our proposed layered disclosure framework.

We are proposing to require funds to continue to file certain information, which is currently included in fund shareholder reports, on Form N-CSR.[392] Section 30 of the Investment Company Act requires funds to file their shareholder reports, including certain information that must appear in their reports, with the Commission.[393] Because we are proposing a framework in which certain information would no longer appear in funds' shareholder reports, we are proposing amendments to Form N-CSR that would create new filing requirements for this information in order to continue to require funds to file the information with the Commission.

This Form N-CSR filing requirement would further the proposed layered disclosure framework by making available a broader set of fund information than the information that appears in funds' annual and semi-annual reports. The information that would be filed on Form N-CSR is less retail-focused than the information that would appear in funds' annual and semi-annual reports, but as detailed below we believe that retaining the availability of this information would be important for investors who desire more in-depth information, financial professionals, and other market participants. The information included on Form N-CSR also would continue to provide shareholders and other market participants with access to historical, immutable data regarding the fund on EDGAR. This historical information also would facilitate the Commission's fund monitoring responsibilities and could create significant efficiencies in the location of information for data gathering, search, and alert functions used in those monitoring activities. For example, filing on EDGAR facilitates the financial

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392 *See* proposed Items 7 through 11 of Form N-CSR.

393 *See* Investment Company Act sections 30(a), 30(e); *see also infra* Table 4.

statement reviews that section 408 of the Sarbanes-Oxley Act of 2002 mandates. Additionally, because Form N-CSR is filed with the Commission on EDGAR, a fund can incorporate by reference information that is disclosed on Form N-CSR, including the fund's financial statements, into a fund's registration statement, subject to certain limitations.[394] Finally, a fund's principal executive and financial officer(s) are required to certify the financial and other information included on Form N-CSR, and are subject to liability for material misstatements or omissions on Form N-CSR.[395]

The amendments that we are proposing to rule 30e-1 would require funds to make available on their website the information that they would newly have to file on Form N-CSR, and to deliver such information upon request, free of charge.[396] These proposed website

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394 *See* 17 CFR 270.0-4 [rule 0-4 under the Investment Company Act] (additional rules on incorporation by reference for funds); 17 CFR 230.411 [rule 411 under the Securities Act] (general rules on incorporation by reference in a prospectus); 17 CFR 232.303 [rule 303 of Regulation S-T] (specific requirements for electronically filed documents); General Instruction D to Form N-1A.

395 *See* 17 CFR 270.30a-2 [rule 30a-2 under the Investment Company Act] and Item 13(a)(2) of Form N-CSR; *see also* Certification of Disclosure in Companies' Quarterly and Annual Reports, Investment Company Act Release No. 25722 (Aug. 28, 2002) [67 FR 57275 (Sept. 09, 2002)].

The Sarbanes-Oxley Act of 2002, Pub. L. 107-204, 116 Stat. 745 (2002) (the "Sarbanes-Oxley Act") requires the principal executive and principal financial officer of most management investment companies to provide two different certifications in their periodic reports. Section 302 of the Sarbanes-Oxley Act requires a certification that, among other things, relates to the accuracy of the information included in the N-CSR filing. Section 906 of the Sarbanes-Oxley Act added new Section 1350 to Title 18 of the United States Code, which requires a certification that, among other things, represents that the N-CSR filing fairly presents, in all material respects, the fund's financial condition and results of operations, and is subject to specific Federal criminal provisions.

396 *See* proposed rule 30e-1(b)(2) (funds would be required to post online Items 7 through 11 of Form N-CSR as well as the fund's complete portfolio holdings, if any, as of the close of the company's most recent first and third fiscal quarters).

availability requirements are designed to provide ready access to this information for shareholders who find this information pertinent. The proposed requirements also would assist those investors who find it most convenient to locate fund materials on a website that is not EDGAR.

The following table outlines the content that we propose to require funds to include in their Form N-CSR filings and make available online. This content is currently included in a fund's annual and semi-annual reports.

**Table 4. Outline of Proposed New Form N-CSR and Website Availability Requirements**

| *Description (and Related Statutory Requirement)* | *Current Rule and Form Requirement(s) for Shareholder Report Disclosure (If Any)* | *Proposed New Disclosure Items for Filing on SEC Forms* | *Proposed Website Availability Requirements* |
|---|---|---|---|
| Financial statements for funds<br><br>*(required by section 30(e) of the Investment Company Act)* | Items 27(b)(1) and 27(c)(1) of Form N-1A | Proposed Item 7(a) of Form N-CSR | Proposed rule 30e-1(b)(2)(i) |
| Financial highlights for funds | Items 27(b)(2) and 27(c)(2) of Form N-1A | Proposed Item 7(b) of Form N-CSR | Proposed rule 30e-1(b)(2)(i) |
| Remuneration paid to directors, officers and others of funds<br><br>*(required by section 30(e) of the Investment Company Act)* | Items 27(b)(3) and 27(c)(3) of Form N-1A | Proposed Item 10 of Form N-CSR | Proposed rule 30e-1(b)(2)(i) |
| Changes in and disagreement with accountants for funds | Items 27(b)(4) and 27(c)(4) of Form N-1A; Item 304 of Regulation S-K | Proposed Item 8 of Form N-CSR | Proposed rule 30e-1(b)(2)(i) |
| Matters submitted to fund shareholders for a vote | Rule 30e-1(b) | Proposed Item 9 of Form N-CSR | Proposed rule 30e-1(b)(2)(i) |

| Statement regarding the basis for the board's approval of investment advisory contract | Item 27(d)(6) of Form N-1A | Proposed Item 11 of Form N-CSR | Proposed rule 30e-1(b)(2)(i) |
|---|---|---|---|
| Complete portfolio holdings as of the close of the fund's most recent first and third fiscal quarters | Currently required in Part F of Form N-PORT. Also website availability of this information currently required for funds relying on rule 30e-3. | N/A | Proposed rule 30e-1(b)(2)(ii) |

### 1. Proposed Form N-CSR Filing Requirements

#### a. Financial Statements

We are proposing to require a fund to file its most recent complete annual or semi-annual financial statements on Form N-CSR, and provide certain data points from the financial statements in its annual and semi-annual reports, in lieu of including the fund's complete financial statements in its shareholder reports.[397] Consistent with current requirements, the fund's annual financial statements would be audited and accompanied by any associated accountant's report, while the semi-annual financial statements need not be audited.

Currently, funds are required to include audited financial statements in their annual reports and unaudited financial statements in their semi-annual reports.[398] Section 30(e) of the

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397 *See* proposed Item 7(a) of Form N-CSR; *see also supra* footnotes 198 through 211 and accompanying text (discussing the proposed requirement to include a graphical representation of a fund's holdings in the shareholder report).

398 *See* Item 27(b)(1) and 27(c)(1) of Form N-1A. A fund's audited financial statements must include, among other items: (1) an audited balance sheet, or statement of assets and liabilities,

Investment Company Act provides that funds' annual and semi-annual reports include the fund's financial statements, which in turn must include a statement of assets and liabilities, a schedule of investments that shows the amount and value of each security owned by the fund on that date, a statement of operations, and a statement of changes in net assets.[399] The annual report must include audited financial statements accompanied by a certificate of an independent public accountant.[400] The financial statements (including the fund's schedule of portfolio investments) provide data regarding the values of the fund's portfolio investments as of the end of the reporting period. This provides a "snapshot" of data at a particular point in time, or, for example in the case of the statement of operations, historical data over a specified time period.[401]

The rules under Regulation S-X establish general requirements for portfolio holdings disclosures in fund financial statements. Information regarding a fund's schedule of portfolio investments is designed to enable shareholders to make more informed asset allocation decisions by allowing them to better monitor the extent to which their investment portfolios overlap. In addition, this information may provide shareholders—particularly those with

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as of the end of the most recent fiscal year; (2) an audited statement of operations for the most recent fiscal year; (3) an audited statement of cash flows for the most recent fiscal year if necessary to comply with generally accepted accounting principles ("GAAP"); (4) audited changes in net assets for the two most recent fiscal years; and (5) a schedule of investments in securities of unaffiliated issuers. *See* 17 CFR 210.3-18 and 210.6-10 [rules 3-18 and 6-10 of Regulation S-X].

399 *See* sections 30(e)(1) through (4) of the Investment Company Act [15 U.S.C. 80a-29(e)(1) through (4)], and section 30(e)(6) of the Investment Company Act [15 U.S.C. 80a-29(e)(6)].

400 *See* section 30(g) of the Investment Company Act [15 U.S.C. 80a-29(g)].

401 *See* Investment Company Reporting Modernization, Investment Company Act Release No. 31610 (May 20, 2015) [80 FR 33590 (June 12, 2015)] ("Reporting Modernization Proposing Release"), at text following n.55.

facility in analyzing funds' individual portfolio holdings—with information about how a fund is complying with its stated investment objective and expose any deviation from the fund's investment objective (*i.e.*, style drift).[402] In lieu of providing a complete schedule of portfolio investments as part of the financial statements included in its shareholder report, a fund may provide a summary schedule of portfolio investments ("summary schedule").[403] The summary schedule must list, separately, the 50 largest issues and any other issue exceeding one percent of the net asset value of the fund at the close of the period.[404]

Much of the length of funds' current annual and semi-annual reports is due to the inclusion of the complete financial statements.[405] Commenters on the Fund Investor Experience RFC, as well as information from prior investor testing and surveys, suggest that some investors generally believe the financial statements, or information derived from financial statements, is important.[406] However, we understand that many shareholders may find the current shareholder report financial statement disclosure to be complex and difficult to understand. For example, the 2012 Report on Investor Testing of Fund Annual Reports noted that while about a quarter of investors surveyed expressed the view that financial

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402 *See* February 2004 Shareholder Report Adopting Release, *supra* footnote 83, at text accompanying n.32.

403 *See* Instruction 1 to Item 27(b)(1) of Form N-1A (permitting the inclusion of Schedule VI–summary schedule of investments in securities of unaffiliated issuers under 17 CFR 210.12-12C [Rule 12-12C of Regulation S-X] in lieu of Schedule 1— Investments of securities of unaffiliated issuers under 17 CFR 210.12-12 (Rule 12-12 of Regulation S-X)).

404 *See* rule 12-12C, n.3 of Regulation S-X [17 CFR 210.12-12C].

405 *See supra* footnote 19 and accompanying text (discussing the typical length of funds' annual reports today).

406 *See supra* footnotes 51 and 52 and accompanying text (summarizing research findings regarding the level of investor interest in financial statement information).

statement information is important, the majority of investors did not find the financial statement section of the shareholder report easy to understand, and investor comprehension of the section was low.[407] Similarly, one commenter on the Fund Investor Experience RFC stated that much of the information included in financial statements is of a technical nature with little importance to the average retail investor, and recommended that this information be included online.[408]

We are proposing to require funds to provide the complete financial statements on Form N-CSR, while retaining the graphical representation of holdings in the annual and semi-annual reports.[409] We believe that this layered approach to disclosure will help shareholders understand how the fund invests its assets. This approach is also designed to permit all shareholders, including retail shareholders, to monitor and assess their ongoing investment in the fund in a concise, easy-to-understand pictorial format, while preserving access to the more complete financial statements for shareholders that find this broader information useful. The graphical representation of holdings in funds' shareholder reports is also in line with the preferences investors have expressed for including more tables, charts, and graphs in fund disclosure to make information more understandable to the average investor.[410]

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407 *See* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 15. The results of the 2012 Report on Investor Testing of Fund Annual Reports found that 24% of shareholders that were surveyed ranked the financial statements within the top three items of importance.

408 *See* ICI Comment Letter I.

409 *See* proposed Item 7 of Form N-CSR (requiring funds to provide the complete financial statements on Form N-CSR); *see also* Item 27A(f) of Form N-1A (requiring shareholder reports to include the graphical representation of holdings).

410 *See* Kleimann, *supra* footnote 324; *see also supra* footnote 34.

We also are proposing amendments to Form N-1A that would eliminate a fund's ability to provide a summary schedule in lieu of providing a complete schedule of portfolio investments as part of the financial statements. We believe that this is appropriate because the proposed annual and semi-annual reports would no longer include the complete financial statements (which includes the schedule of portfolio investments). Therefore, because a fund's full schedule of investments would only be included on Form N-CSR and on the fund website, we believe that allowing funds to use the summary schedule would be unnecessary and could potentially be confusing to shareholders. This proposed change would also reduce costs to the extent funds need not print and mail a complete schedule of portfolio investments as part of the financial statements unless a shareholder requests this information.[411] Furthermore, because the proposed annual and semi-annual reports are designed to help investors focus on the most salient features of the fund to better evaluate their investment, we do not believe it would be useful to shareholders, and may even be confusing, to allow funds to provide a summary schedule alongside the complete schedule of portfolio investments online.

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[411] Under the proposal, this information would also appear online. As part of its proposal and adoption of rule 30e-3, the Commission similarly proposed to eliminate the ability of a fund relying on rule 30e-3 to provide a summary schedule in its shareholder report because the shareholder report would only be filed online and, therefore, the fund would not bear additional printing and mailing costs associated with providing the full schedule of investments. *See* Reporting Modernization Proposing Release *at* Section II.D.

The Commission ultimately determined to retain the ability for a fund that relies on rule 30e-3 to provide a summary schedule in the Rule 30e-3 Adopting Release, and acknowledged that a fund may choose to use a summary schedule for cost considerations or otherwise. *See* Rule 30e-3 Adopting Release, *supra* footnote 14, at n.120. We believe the considerations underlying this proposal's treatment of the summary schedule are different because, unlike under rule 30e-3, no fund investors would have a shareholder report that includes the fund's financial statements directly transmitted to them. Under rule 30e-3, funds would still have to deliver shareholder reports that include full financial statements to any shareholder who so requests.

We seek comment on our proposal to require funds to file their annual and semi-annual financial statements on Form N-CSR and make them available online rather than in a fund's shareholder reports, and specifically on the following issues:

136. Would our proposed layered approach to disclosure of financial statement information—by providing the graphical representation of holdings in the annual and semi-annual report and the complete financial statements on Form N-CSR—help tailor information to shareholders based on their informational needs? Are there any other data elements from funds' financial statements that should be included in funds' annual and semi-annual reports, and if so, what elements and why would they be useful for retail shareholders?

137. Is the direct transmission of audited financial statements, or a portion of them, important to fund investors, and if so, why? If important, would it be helpful to investors for any information in the annual report to be replicated verbatim from the audited financial statements, and for the report to make clear that certain information was audited? What information and why?

138. Should we, as proposed, eliminate a fund's ability to provide a summary schedule in lieu of providing a complete schedule of portfolio investments as part of the financial statements? Should we instead either permit funds to continue providing a summary schedule as part of their financial statements, or require funds to include a summary schedule in their shareholder reports? Would the latter alternative provide an appropriate complement to the graphical representation of holdings, or would including the summary schedule in funds' shareholder reports be duplicative and/or confusing in light of the proposed requirement to include the graphical representation of holdings in funds' annual and semi-annual reports? If we were to continue to permit funds to provide a summary schedule as part

of their financial statements, should we also require these funds to make their complete portfolio holdings, as of the close of the fund's most recent second and fourth fiscal quarters, available on a website (in addition to the proposed requirement discussed below that funds make their first and third fiscal quarters' complete portfolio holdings available online)?[412] Should we permit a fund to make the summary schedule available online instead of the complete schedule of portfolio holdings? Why or why not?

139. Other than complete financial statements, is there any other financial information that funds should be required to file on N-CSR? Do investors and other market participants currently use the financial statement information that appears on EDGAR as part of funds' filed shareholder reports, and if so, how?

b. Financial Highlights

We are proposing to require funds to file their financial highlights information on Form N-CSR.[413] This information is identical to the information currently required in fund shareholder reports. We are proposing that funds would not include financial highlights information in their annual or semi-annual reports, with the exception of certain specific data points as discussed below.

Currently, funds are required to disclose the condensed financial information that Item 13(a) of Form N-1A requires (*i.e.,* financial highlights) in their annual and semi-annual reports.[414] The financial highlights include a summary table of financial information covering

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412 *See infra* Section II.D.2.a.

413 *See* proposed Item 7(b) of Form N-CSR.

414 *See* Items 27(b)(2) and 27(c)(2) of Form N-1A. *See also* Item 13(a) of Form N-1A.

the preceding five years (or since the fund's inception, if less than five years).[415] Under certain circumstances, a fund may incorporate by reference its financial highlights from a report to shareholders into its prospectus.[416]

The information contained in a fund's financial highlights is generally designed to help investors evaluate the fund's historical performance and fund manager's investment management expertise.[417] For example, disclosure of changes in a fund's total return over a five-year period is designed to give a shareholder information regarding the fund's performance trends over time (*i.e.*, volatile vs. steady returns).[418] Similarly, a higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when fund shares are held in a taxable account.[419]

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415 The summary table contains information regarding changes in a fund's net asset value, total returns, portfolio turnover rate, and capital distributions, among other things, during the preceding five years. *See* Item 13(a) of Form N-1A.

416 *See* Instruction 4(e) to Item 13 of Form N-1A. A fund currently may incorporate the financial highlights from a shareholder report into the prospectus if the fund delivers the shareholder report simultaneously with the prospectus or if the shareholder report has been previously delivered to shareholders. A fund that incorporates the financial highlights by reference must include a statement in its prospectus explaining that: (1) additional information about the fund's investments is available in the annual and semi-annual reports to shareholders; (2) the fund's annual report provides a discussion of the market conditions and investment strategies that significantly affected the fund's performance during its last fiscal year; and (3) the fund's annual and semi-annual reports are available, without charge, upon request. A fund must also explain how shareholders may make inquiries to the fund, provide a telephone number for shareholders to call to request the annual or semi-annual report, and state whether the fund makes available its annual and semi-annual reports, free of charge, on the fund's website. *See* Item 1(b)(1) of Form N-1A.

417 *See* Improving Descriptions of Risk by Mutual Funds and Other Investment Companies, Investment Company Act Release No. 20974 (Mar. 29, 1995) [60 FR 17172 (Apr. 4, 1995)].

418 *See* How to Read a Mutual Fund Shareholder Report, *supra* footnote 316.

419 *Id.*

While we would require funds to file the entirety of their financial highlights on Form N-CSR, we are also proposing to retain certain elements of the financial highlight information in funds' annual and semi-annual reports. These retained elements are those that we understand may be particularly helpful for shareholders to evaluate a fund's performance. This layered disclosure approach is designed to retain the financial highlight information that we believe would be most salient to retail shareholders in funds' shareholder reports, while preserving the entirety of this information on Form N-CSR for those shareholders to whom the broader information would be useful.[420] While one industry survey found that the average retail shareholder finds most of the items from the financial highlights section difficult to understand, this survey also concluded that a majority of shareholders found the total return and expense ratio information important for shareholders to monitor and assess their investments in a fund.[421] Accordingly, we are proposing that a fund would have to disclose its expense ratio in the "Fund Expenses" section of the proposed annual and semi-annual reports.[422] Also, while funds' shareholder reports would no longer include annual total returns

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420 *See* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 138 (noting that a few of the investors who were surveyed indicated that they saw value in the financial highlights information and stated that financial highlights provided them with a snapshot of the fund and important fund performance trend data that is easy to digest).

421 *See* ICI Comment Letter I (noting that shareholders from all age and income groups supported the inclusion of total return and expense ratio information in a summary shareholder report and indicated that it was important to include a graphical representation of these key measures. The survey also noted that two-thirds of mutual fund investors who read very little of the current shareholder report and found it difficult to understand, still indicated the total return and expense ratio chart was very important and needed to be kept in the summary shareholder report).

422 *See* proposed Item 27A(c) of Form N-1A. The expense ratio would be based on the fund's net expenses under GAAP and would reflect any interest or dividend expense.

for each of the preceding five years, the MDFP section of the annual report would continue to include certain information regarding a fund's annual total returns.[423] Shareholders also would continue to be able to assess performance trends over time using the performance line graph and performance table that would appear in the annual report.[424] Finally, we would require annual and semi-annual reports to include funds' disclosure of their net assets and portfolio turnover rate (which are also data elements from the fund's financial highlights) as of the end of the period covered by the report.[425] We believe that all of these data elements that would appear in the proposed annual and semi-annual reports would together serve as a snapshot—of both period-end data and data over time—that would provide retail shareholders with the financial highlights data that they have indicated they find most useful. Investors who want to continue to have access to all of the information that currently appears in funds' financial highlights would continue to be able to access this information on Form N-CSR and online.[426]

Item 13 of Form N-1A currently requires a fund to include financial highlights information in its prospectus, and an instruction to this item permits a fund to incorporate this information from a shareholder report under rule 30e-1 by reference into its prospectus.[427]

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423 *See* proposed Item 27A(d)(2)(B) of Form N-1A. Our proposal would require a fund to continue to disclose its average annual total returns for the 1-, 5-, and 10-year periods as of the end of the last day of the most recent fiscal year (or for the life of the fund, if shorter) in its annual report, as funds do today.

424 *See supra* Sections II.B.2.c.ii, II.B.2.c.iii.

425 *See supra* Section II.B.2.d.

426 The information that would be available online includes detailed year-over-year comparisons over the past five years of per-share information associated with net investment income, net gains or losses on securities and distributions, as well as expense ratio, portfolio turnover and return information.

427 A fund may incorporate this information by reference if the fund delivers the shareholder report with the prospectus or, if the report has been previously delivered (*e.g.*, to a current

Because, under the proposal, funds' shareholder reports would no longer include financial highlights, we are proposing to amend the current instruction to allow a fund to incorporate by reference into its prospectus its financial highlights from Form N-CSR.[428] For existing shareholders that have received the fund's shareholder report, a fund would be required to include a legend stating that additional information about the Fund's annual and semi-annual financial statements is available in Form N-CSR.[429] For new investors in the fund, the fund would be required to provide the fund's most recent shareholder report along with its prospectus.[430] This provision parallels the current provision that allows a fund to incorporate by reference its financial highlights from the fund's shareholder report.

Finally, as discussed above, we also are proposing amendments to Item 13(a) of Form N-1A to require an ETF to disclose its total return based on the ETF's per share market value

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shareholder), the fund includes the statement that Item 1(b)(1) of Form N-1A requires (*i.e.*, a statement that additional information about the fund's investments is available in the fund's annual and semi-annual reports to shareholders). *See* Instruction (4)(e) to Item 13 of Form N-1A.

428 *See* proposed amendments to Instruction (4)(e) to Item 13 of Form N-1A.

429 *See* proposed amendments to Item 1(b)(1) of Form N-1A. The required statement would state (among other things) that: (1) additional information about the fund's investments is available in the fund's annual report to shareholders and in Form N-CSR; (2) the fund's annual report and Form N-CSR are available, without charge, upon request. A fund must also explain how shareholders may make inquiries to the fund, provide a telephone number for shareholders to call to request the fund's annual report and Form N-CSR, and state whether the fund makes available Form N-CSR, free of charge, on the fund's website. *See* Item 1(b)(1) of Form N-1A.

430 *See* proposed amendments to Instruction 4(e) to Item 13 of Form N-1A, current Instruction 4(e) to Item 13 of Form N-1A (allowing a fund to incorporate by reference its financial highlights from its shareholder report into the prospectus so long as the fund delivers the shareholder report with the prospectus (*i.e.*, for new shareholders)). If the shareholder report has been previously delivered (*e.g.,* to a current shareholder), the fund must include a statement clarifying that the financial highlights are being incorporated by reference pursuant to the requirements of Item 1(b)(1) of Form N-1A).

return as of the end of the period.[431] This would align the information provided in the financial highlights with the expense information included in the annual and semi-annual reports.

We seek comment on our proposal to require financial highlights information to be disclosed on Form N-CSR, and specifically on the following issues:

140. Should we, as proposed, layer the information that appears in funds' financial highlight information to preserve the most retail-focused disclosure in funds' shareholder reports, while making the full financial highlights available on Form N-CSR and online? Would this proposed layered approach help tailor disclosure to shareholders based on their informational needs? If not, what changes should we make to the proposed approach?

141. Should we, as proposed, revise the Form N-1A instruction to permit funds to incorporate by reference their financial highlights from Form N-CSR into their prospectuses? Why or why not? If so, should we require funds to include a statement explaining that the fund's financial statements are included on Form N-CSR, that Form N-CSR is available, without charge, upon request, and how a shareholder may make inquiries to request Form N-CSR, and whether the fund makes available Form N-CSR on the fund's website?

142. Should we, as proposed, require ETFs to disclose market value return in their financial highlights? Would shareholders find this information useful? Because we are proposing to require this information to be included in the fund expenses section of the

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431 *See supra* footnote 159. We are also proposing amendments to the instructions pertaining to total return calculations that would specify how an ETF should calculate its total return based on its per share market value. *See* proposed Instruction 3(a)(5) of Item 13(a) of Form N-1A.

shareholder report, is it useful for shareholders to have this information in both the financial highlights and in the shareholder report?

143. Rather than allowing funds to incorporate by reference their financial highlights from Form N-CSR, should we instead remove the current Form N-1A instruction permitting funds to incorporate their financial highlights by reference into their prospectuses (thereby requiring funds to include their financial highlights in their prospectuses instead of incorporating this information by reference)? If we were to require funds to include their financial highlights in their prospectuses, should it be necessary for them to also file this information on Form N-CSR? Would shareholders benefit from having access to this information on Form N-CSR in addition to the prospectus? How burdensome would it be for a fund to include financial highlights into their prospectuses and also file that information on Form N-CSR?[432]

144. Rather than requiring the full financial highlights to be filed on Form N-CSR, should we require funds to file and post only certain data points from the financial highlights? If so, which ones? Do investors and other market participants currently use the financial highlights information that appears on EDGAR as part of funds' filed shareholder reports, and if so, how?

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[432] Under section 10(a)(3) of the Securities Act, funds typically update their prospectuses within 120 days of the end of fiscal year-end, and, typically, updated prospectuses are delivered to existing shareholders soon thereafter. *See supra* footnotes 11 and 20 (discussing the transmittal requirements for fund prospectuses).

c. Changes in and Disagreement with Accountants for Funds

We are proposing to require a fund to file on Form N-CSR the disclosures that Item 304 of Regulation S-K currently requires, concerning changes in and disagreements with accountants.[433] As discussed above, funds must currently include this information in their shareholder reports.[434] The proposed Form N-CSR filing requirement would complement the proposed requirement for funds to include a high-level summary of changes in and disagreements with accountants in their annual reports.

While the disclosure that we are proposing funds to include in their shareholder reports would be designed to put shareholders on notice of the dismissal or resignation of an accountant and the existence of a material disagreement with that accountant, the information that funds would report on Form N-CSR would provide additional, more nuanced and technical disclosure that may be informative to some shareholders and other market participants. For example, this disclosure could be meaningful as it indicates that the fund has especially challenging, subjective, and/or complex accounting policies and financial statement disclosures or the accountant could not resolve audit findings. Moreover, we believe that it is appropriate to retain this disclosure in a location that includes audited financial information (as proposed, Form N-CSR) to provide those investors, financial professionals, and other market participants who review and analyze this disclosure with appropriate contextual information.

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433 *See* proposed Item 8 of Form N-CSR.

434 *See supra* footnote 293 and accompanying text.

We seek comment on our proposal to require a fund to disclose on Form N-CSR the information required by Item 304 of Regulation S-K. We specifically request comment on the following issues:

145. Should we, as proposed, require a fund to file the information required by Item 304 of Regulation S-K on Form N-CSR? Why or why not?

146. Would requiring the Item 304 information to be filed on Form N-CSR be useful to investors, financial professionals, or other market participants? If so, what types of audiences would find this information to be particularly useful, and why? If not, why not?

147. Is the proposed Form N-CSR disclosure requirement appropriate and necessary in light of the proposed summary information about changes in and disagreements with accountants that we propose funds to include in their shareholder reports? If not, why not?

148. Rather than the proposed approach, should we instead amend and/or streamline the requirement to disclose Item 304 information and retain the amended disclosure in the fund's annual report? Why or why not? Do investors and other market participants currently use the Item 304 information that appears on EDGAR as part of funds' filed shareholder reports, and if so, how?

d. Matters Submitted for a Shareholder Vote

We are proposing to require funds to include information about matters submitted for a shareholder vote on Form N-CSR, rather than in their shareholder reports.[435] This information

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[435] *See* proposed Item 9 of Form N-CSR (requiring a fund to file on Form N-CSR the information that the fund currently provides in its shareholder reports pursuant to rule 30e-1(b)). *See also infra* footnote 437 (detailing the disclosure requirements with respect to matters submitted for a shareholder vote). The information regarding matters submitted for a shareholder vote that would be disclosed on Form N-CSR is identical to the information currently included in fund

is identical to the information currently required in fund shareholder reports. Currently, when a matter is submitted to a vote of shareholders, funds must disclose information regarding the substance of these matters, along with the results of such votes, in several ways. First, shareholders receive proxy statements that include detailed descriptions of issues brought before shareholders for their vote.[436] If a matter is submitted to a vote of fund shareholders during the period covered by an annual or semi-annual report, the fund must include certain information regarding the vote results in that report.[437] Furthermore, funds are required to disclose on Form N-CEN whether the fund submitted any matters for a shareholder vote during the reporting period.[438] Shareholder voting plays a valuable role in fund regulation, and providing information regarding shareholder votes keeps shareholders informed and may operate as a deterrent to self-dealing by the fund's adviser.[439]

The proposed amendments to the disclosure requirements for matters submitted for a shareholder vote are designed to further our proposed layered approach to shareholder report

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shareholder reports.

436 *See e.g.* Schedule 14A [17 CFR 240.14a-101] under the Securities Exchange Act of 1934 [15 U.S.C. 78a et seq.] (providing the content requirements for investment company proxy statements).

437 *See* rule 30e-1(b). This disclosure must include: (1) the date of the meeting and whether it was an annual or special meeting; (2) if the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting; and (3) a brief description of each matter voted upon at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to each such matter, including a separate tabulation with respect to each matter or nominee for office.

438 *See* Item B.10 of Form N-CEN.

439 *See e.g.,* Amendments to Proxy Rules for Registered Investment Companies, Investment Company Act Release No. 19957 (Dec. 16, 1993) [58 FR 67729 (Dec. 22, 1993)] at text following n.6.

disclosure. The approach we are proposing also reflects our understanding that many retail shareholders tend not to review the information regarding vote results currently required in the shareholder report.[440]

Under our proposal, funds' annual and semi-annual reports would no longer include information about the results of shareholder votes, but shareholders would continue to receive information about these matters through other channels. Shareholders would continue to receive a detailed description of matters submitted for a shareholder vote in fund proxy statements. Furthermore, because the proposed annual report would require funds to describe certain material changes that have occurred in the fiscal year, shareholders would receive disclosure of certain material changes that have resulted from shareholder votes.[441] If it would be valuable to a shareholder to review additional information about the outcome of matters submitted for a shareholder vote, the shareholder would continue to have access to this more-detailed information, which the fund would file on Form N-CSR. For example, we anticipate that certain shareholders, particularly investors who desire more in-depth information, and other market participants would want to continue to have ready access to information about shareholder votes, to the extent they express investor preferences on matters such as changes

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440 *See* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 50 (stating that only 4% of investors say they review the discussion of the results of shareholder votes included in their annual and semi-annual reports).

441 *See supra* Section II.B.2.f.

in the fund's fundamental policies, investment advisory agreements, board of directors, and organizational documents.

We seek comment on our proposal to require funds to disclose the matters submitted to a vote of shareholders on Form N-CSR rather than the fund's shareholder reports, and specifically on the following issues:

149. Should we, as proposed, require funds to file the information regarding matters submitted for a shareholder vote on Form N-CSR? Why or why not? Alternatively, should we only require funds to disclose the information regarding matters submitted for a shareholder vote on the fund's website, and not also require funds to file this information with the Commission on Form N-CSR? Why or why not? Do investors and other market participants currently use the information regarding matters submitted for a shareholder vote that appears on EDGAR as part of funds' filed shareholder reports, and if so, how?

150. Would requiring this information to be filed on Form N-CSR be useful to investors, financial professionals, or other market participants? If so what types of audiences would find this information to be particularly useful, and why? If not, why not? If so, should we include information regarding matters submitted for a shareholder vote, or any summary of this information, in the proposed annual report? Why or why not?

151. Are there certain types of matters submitted for a shareholder vote that shareholders find more important than others? If so, what are they? Should we require funds to include in their annual and semi-annual reports the results of only certain matters submitted to a shareholder vote that retail shareholders find most pertinent? What matters would those be?

152. Rather than the proposed approach to disclosure regarding matters submitted for a shareholder vote, should we instead amend and/or simplify the current shareholder report disclosure requirement? If so, should we retain the amended disclosure in funds' annual and semi-annual reports? Why or why not?

e. Remuneration Paid to Directors, Officers, and Others

We are proposing to require funds to file the aggregate remuneration the fund paid to its directors, officers, and certain affiliated persons on Form N-CSR.[442] This information is identical to the information currently required in fund shareholder reports. Funds currently provide this information in their annual reports under section 30(e) of the Investment Company Act.[443]

As the Commission has noted, because of the substantial influence a fund's investment adviser has in determining its own remuneration, as well as the remuneration paid to directors and officers of the fund, availability of information about remuneration paid to the fund's directors and officers may help shareholders to analyze the use of corporate funds and assets, and to assess the value the fund's directors and officers bring to the fund.[444] In addition to the

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442 *See* proposed Item 10 of Form N-CSR.

443 *See* section 30(e)(5) of the Investment Company Act [15 U.S.C. 80a-30(e)(5)] (permitting the Commission to require that funds transmit to shareholders, at least semi-annually, reports containing, among other things, a statement of aggregate remuneration paid by the fund during the period covered by the report to officers, directors, and certain affiliated persons); *see also* Items 27(b)(3) and 27(c)(3) of Form N-1A. Funds are required to disclose aggregate remuneration paid to: (1) all directors and all members of any advisory board for regular compensation; (2) each director and each member of an advisory board for special compensation; (3) all officers; and (4) each person of whom any officer or director of the fund is an affiliated person.

444 *See* Disclosure of Management Remuneration, Investment Company Act Release No. 9900 (Aug. 18, 1977) [42 FR 43058 (Aug. 26, 1977)] at text accompanying nn.15 and 16 (noting that full public disclosure of remuneration paid to officers, directors and other persons is

aggregate remuneration disclosure in a fund's shareholder report, a fund is currently required to provide detailed disclosures regarding compensation paid to each of the directors, members of any advisory board, and certain officers and affiliates in the fund's SAI.[445]

Based on the comments the Commission received on the Fund Investor Experience RFC, as well as information from prior investor testing and surveys, we understand that retail shareholders generally do not find remuneration information useful in the shareholder report and seldom review this section of the current shareholder report.[446] One commenter also stated that information regarding the remuneration of directors is technical, and recommended that this information instead be included online.[447] Because we believe that this type of information is not directly pertinent to a retail shareholder's understanding of the fund's operation and performance, and because similar information is available in the fund's SAI, we are proposing to remove the current remuneration disclosure from the shareholder reports. Investors who desire more in-depth information, financial professionals, and other market participants who would find remuneration-related information valuable (for example, in

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necessary for shareholders to make "informed voting and investment decisions, regardless of whether the [fund's] board of directors or its security holders have approved the remuneration package received by management because of the substantial influence of management in determining its remuneration").

445 *See* Item 17(c) of Form N-1A (requiring a fund to disclose certain compensation information for each of the fund's directors and for each member of any advisory board who receives compensation from the fund, and for each of the three highest paid officers or any affiliated person of the fund who received aggregate compensation from the fund for the most recently completed fiscal year exceeding $60,000).

446 *See* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 50 (stating that only 7% of investors say they review the discussion regarding fund directors and officers included in their annual and semi-annual reports); *see also* Broadridge Comment Letter I.

447 *See* ICI Comment Letter I.

monitoring fund management) would continue to be able to find it in the fund's SAI (where compensation information is disclosed for each director), as well as in Form N-CSR filings (where compensation information is aggregated, as it is in shareholder reports today).

We seek comment on our proposal to require funds to disclose information about remuneration paid to directors, officers and others on Form N-CSR rather than the fund's annual reports, and specifically on the following issues:

153. Should we require funds to include information concerning remuneration paid to directors, officers and others in the proposed annual report? If so, why?

154. Is this remuneration information useful to investors, financial professionals, or other market participants? If so what types of audiences would find this information to be particularly useful, and why? If not, why not?

155. Rather than removing this disclosure entirely from the annual report, should we require funds to provide certain data points regarding remuneration paid to directors, officers and others in their annual reports? For example, should we require disclosure of remuneration paid to directors in the fund's shareholder report if it exceeds a certain threshold? Or, should we require a fund to disclose in its annual report any changes to director or officer remuneration during the reporting period?

156. Because more detailed information regarding compensation paid to directors and officers already must appear in a fund's SAI, would the proposed aggregated remuneration information filed on Form N-CSR meaningfully and usefully supplement this current SAI disclosure? If so, how? Or would the proposed aggregated remuneration information be duplicative of existing SAI disclosures? Do investors and other market

participants currently use the information regarding compensation paid to directors and officers that appears on EDGAR as part of funds' filed shareholder reports, and if so, how?

f. Statement Regarding Basis for Approval of Investment Advisory Contract

Currently, funds are required to provide a statement, in the annual and semi-annual reports, regarding the basis for the board's approval of the fund's investment advisory contract.[448] We are proposing to require funds to provide this information on Form N-CSR, rather than in the fund's shareholder reports.[449] This information is identical to the information currently required in fund shareholder reports.

Under current shareholder report disclosure requirements, if the board of directors approved any investment advisory contract during the fund's most recent fiscal half-year, the fund is required to discuss in reasonable detail the material factors and the conclusions with respect thereto that formed the basis for the board's approval. When the Commission adopted these requirements in 2004, it stated that the purpose of this requirement was to "encourage funds to provide a meaningful explanation of the board's basis for approving an investment advisory contract," which, in turn, the Commission hoped would encourage boards to "consider investment advisory contracts more carefully and investors to consider more carefully the costs and value of the services rendered by the fund's investment adviser."[450]

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448 *See* Item 27(d)(6) of Form N-1A.

449 *See* proposed Item 11 of Form N-CSR. We are also proposing to eliminate Item 10(a)(1)(iii) of Form N-1A which requires funds to include, in the SAI, a statement noting that a discussion regarding the basis for the board's approval of any investment advisory contract is available in the fund's annual or semi-annual report, as applicable, and providing the period covered by the relevant report.

450 *See* Disclosure Regarding Approval Of Investment Advisory Contracts By Directors Of

We continue to believe that requiring funds to provide shareholders with information regarding the board's review of investment advisory contracts preserves transparency with respect to those contracts, and fees paid for advisory services, assists investors in making informed investment decisions, and encourages fund boards to engage in vigorous and independent oversight of advisory contracts.[451] However, we preliminarily believe that this disclosure is not well suited to the fund's shareholder report because it pertains less directly to a retail shareholder's understanding of the operations and performance of the fund and does not lend itself to the type of focused disclosure that the proposed annual report is designed to include. Because of the nature and quantity of information in this disclosure, we therefore believe that it may be better suited to appear in a different location that would continue to permit access to fund shareholders and other market participants who find this information to be particularly useful and meaningful.[452] We believe that providing this information on Form N-CSR would continue to allow these persons effectively to consider the costs and value of the services that the fund's investment adviser renders.[453]

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Investment Companies, Investment Company Act Release No. 26486 (June 23, 2004) [69 FR 39798 (June 30, 2004)] ("Disclosure Regarding Approval of Advisory Contracts Release"), at text following n.23.

451 *See id.* at n.18.

452 *See* 2012 Report on Investor Testing of Fund Annual Reports, *supra* footnote 26, at 49 (noting that only 5% of investors surveyed ranked the discussion of board approvals of advisory contracts within the top three most important areas of information provided in shareholder reports).

453 Fund shareholders also would receive disclosure about the factors that form the basis for the board's approval of the advisory contract if a fund's advisory contract were to require a shareholder vote. In this case, the fund would be required to include in its proxy statement a discussion of the material factors the board considered as part of its decision to approve the fund's investment advisory contract. *See* Item 22(c)(11) of Schedule 14A.

We seek comment on our proposal to require funds to disclose the basis for the board's approval of the fund's investment advisory contract on Form N-CSR rather than in the fund's shareholder reports, including the following specific issues:

157. Should we, as proposed, remove the information regarding the basis for the board's approval of a fund's advisory contract from shareholder reports? Should we instead amend and/or simplify this disclosure requirement and/or retain the amended disclosure in funds' annual and semi-annual reports? Would this amended disclosure be useful for retail shareholders to use to monitor and assess their ongoing investment in a fund?

158. Should we, as proposed, require funds to file the information regarding the board's approval of a fund's advisory contract on Form N-CSR? Why or why not? Do investors and other market participants currently use the information regarding the board's approval of a fund's advisory contract that appears on EDGAR as part of funds' filed shareholder reports, and if so, how?

### 2. Proposed Website Availability Requirements

#### a. Website Content Requirements

We are proposing to require a fund to post online all of the information that the proposal would newly require on Form N-CSR.[454] The fund would have to make this information available from 70 days after the end of the relevant fiscal period until 70 days following the next respective fiscal period.[455] Currently, funds are required to file reports on

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454 *See infra* sentence accompanying footnote 470 (under our proposal, funds would have the option to satisfy this website availability by posting online its most recent report on Form N-CSR).

455 *See* proposed rule 30e-1(b)(2)(i) (requiring a fund to disclose Items 7 through 11 of Form N-CSR on a website no later than 70 days after the end of the fiscal half-year or fiscal year of the

Form N-CSR not later than 70 days after the close of the fund's fiscal half-year.[456] Therefore, our proposal would align the timing of the availability of the information provided online with when reports on Form N-CSR are filed.

In addition, we are also proposing to require a fund (other than a money market fund) to make its complete portfolio holdings, as of the close of the fund's most recent first and third fiscal quarters, available on a website.[457] A fund would have to make this information available within 70 days after the close of each such quarter.[458] A fund's portfolio holdings information for its first and third fiscal quarters would have to remain publicly accessible online for a full fiscal year.[459]

This portfolio holdings information would complement the second and fourth fiscal quarter portfolio holdings information that we also are proposing to require funds to make available on a website (as part of the proposed requirement to make their financial statements available online).[460] The proposed requirement to post first and third quarter portfolio

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fund until 70 days after the end of the next fiscal half-year or fiscal year of the fund, respectively).

456 While rule 30e-1(c) requires a shareholder report to be transmitted to shareholders within 60 days after the close of the relevant period, we believe it is appropriate to align the availability of information online with the filing of Form N-CSR, because the online information would be filed on Form N-CSR.

457 *See* proposed rule 30e-1(b)(2)(ii).

458 Under this proposed requirement, the portfolio holdings for each of the first and third fiscal quarters would be required to appear on a website no later than 70 days after the close of each of the first and third fiscal quarters, respectively. For example, a fund with a December 31 fiscal year end would be required to make its complete portfolio holdings for the first quarter ending March 31 of the next year available within 70 days after the end of the first quarter.

459 Proposed rule 30e-1(b)(2)(ii).

460 *See supra* Section II.D.1.a.

To conform the format and content of the portfolio holdings schedules for the first and third

holdings online is therefore designed to provide investors and other market participants with easy access to a full year of complete portfolio holdings information in one location. Funds are currently required to disclose their holdings as of the end of each fiscal quarter in reports on Form N-PORT filed with the Commission (which are available on EDGAR). However, all open-end funds are not currently required to send holdings information as of the end of the first- and third-quarters to shareholders or to make that information accessible on a website other than EDGAR.[461] The proposed requirement would provide centralized access to this information, rather than requiring investors to access the fund's reports on Form N-PORT for each of those periods separately.[462] Also, we anticipate that the portfolio holdings information that funds would make available online would be available in a more user-friendly presentation than the information that funds report on N-PORT in structured data format.

We seek comment on the proposed requirements for website content that funds would have to make available under the proposals, including the following specific issues:

159. Should we, as proposed, require a fund to post online all of the information that would newly be filed on Form N-CSR?

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quarters to those schedules presented in the fund's financial statements for the second and fourth quarters, the proposed rule would require the schedules for the first and third quarters to be presented in accordance with §§210.12-12 through 210.12-14 of Regulation S-X, which need not be audited. *See* proposed rule 30e-1(b)(2)(ii).

461 *But see* rule 30e-3(b)(1)(iv) (requiring funds that rely on rule 30e-3 to make holdings information as of the end of the first and third quarters available on the fund's website). Our proposal would ensure that all investors have convenient access to the most recent four quarters of portfolio holdings in a central location.

462 *See* Part F of Form N-PORT (requiring N-PORT filers to provide, as exhibits to Form N-PORT, the fund's complete portfolio holdings for the end of the first and third quarters of the fund's fiscal year, as of the close of the period, no later than 60 days after the end of the reporting period).

160. How often should funds be required to update the information that appears online? For example, should we require a fund to update its online financial statement information more or less frequently than semi-annually or its online portfolio holdings information more or less frequently than quarterly? Should we instead, for example, require funds to update all information that appears online monthly or as soon as it becomes available? Why or why not?

161. What is the appropriate time period for a fund to have to make the newly required Form N-CSR information available online? Should we, as proposed, allow funds to delay the availability of materials online by 70 days after the end of the relevant fiscal period? Because funds send their annual and semi-annual reports 60 days after the end of the fiscal period, should we similarly adopt a 60-day delay for the online accessibility of information that funds would file on Form N-CSR?

162. How long should each of the newly required Form N-CSR materials have to remain accessible online? Should we, as proposed, require funds to maintain the required information on their websites for a full fiscal year? Is it useful for investors to have this information available for a full fiscal year? Should we require the information to be available for a period longer or shorter than a full fiscal year (such as two years, or six months)?

163. Should we require only certain Form N-CSR items to be available for a full fiscal year? If so, which items should we require funds to make available for a full year and why? For example, how long should funds be required to maintain the portfolio holdings information that appears online? Should we, as proposed, require a fund to maintain its holdings information as of the close of each fiscal quarter for a full fiscal year? Would shareholders find this useful? As another example, should we require funds to maintain only

their financial statements and portfolio holdings information for a full fiscal year, while permitting funds to remove the remainder of Form N-CSR information from their websites on a semi-annual basis?

164. Should we, as proposed, require the portfolio holdings information for the first and third quarters to be presented in accordance with the schedules set forth in §§210.12-12 through 210.12-14 of Regulation S-X?

165. Should we require any additional disclosure on fund websites to clarify to investors that portfolio holdings information for the fund's second and fourth quarters is available online as part of the fund's financial statements?

166. Should we adopt a specific format for how a fund should present its first and third fiscal quarter information online? If so, what should it be? For example, should we require this information be posted in XML format or a PDF form?

167. Rather than requiring funds to maintain all four most recent fiscal quarters of portfolio holdings information on fund websites, should we instead require funds to only provide portfolio holdings information for their most recent fiscal quarter (or some other period, such as the fund's most recent two fiscal quarters)? Alternatively, should we require funds to maintain additional portfolio holdings information on their websites, such as the past two or five years of information?

168. As funds would be required to file their portfolio holdings information as of the close of their second and fourth fiscal quarters on Form N-CSR as part of their financial statements, should we also require funds to file the portfolio holdings information as of the close of their first and third fiscal quarters on Form N-CSR? Would it be useful for investors or any other market participants—for example, data aggregators—to have historical holdings

data for all of a fund's fiscal quarters filed on a single Commission form (as opposed to having to aggregate this information either from information filed on Form N-CSR and the portfolio holdings filed as exhibits to Form N-PORT, or from information that funds would otherwise be required to make available online on websites other than EDGAR)? Is it easier for data aggregators to collect information from a single Commission form? Does easier access to information by data aggregators increase the flow of information to investors?

169. Instead of requiring complete portfolio holdings information, should we require funds only to disclose a subset of holdings, such as the top ten largest holdings, for each quarter on their websites and/or in the proposed annual report?

b. Accessibility and Presentation Requirements

Under our proposal, funds also would have to comply with certain conditions designed to ensure the accessibility of information that is required to appear online.[463] First, the website address where the required information appears must be specified on the cover page or beginning of the shareholder report and could not be the address of the Commission's electronic filing system.[464] Second, the materials required to appear online would have to be presented in a format convenient for both reading online and printing on paper, and persons

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[463] Proposed rule 30e-1(b)(2). These requirements are similar to the accessibility requirements of rule 30e-3 and rule 498 under the Securities Act (permitting funds to use a summary prospectus to satisfy prospectus delivery obligations) and rule 14a-16 under the Securities Exchange Act (requiring issuers and other soliciting persons to furnish proxy materials by posting these materials on a public website and notifying shareholders of the availability of these materials and how to access them).

[464] Proposed rule 30e-1(b)(2)(i) through (iii). The Commission's electronic filing system for fund documents is EDGAR. Rule 498 under the Securities Act includes a similar requirement. *See* 17 CFR 230.498(b)(1)(v)(A).

accessing the materials would have to be able to retain permanently (free of charge) an electronic copy of the materials in this format.[465] These conditions are designed to ensure that information appearing online pursuant to the proposed rule is user-friendly and allows shareholders the same ease of reference and retention abilities they would have with paper copies of the information.

The rule as proposed also would include a safe harbor provision providing that a fund shall have satisfied its obligations to transmit shareholder reports even if it did not meet the posting requirements of the rule for a temporary period of time.[466] In order to rely on this safe harbor, a fund would have to have reasonable procedures in place to help ensure that the required materials appear on its website in the manner required by the rule and take prompt action to correct noncompliance with these website availability requirements.[467] The proposed rule would require prompt action as soon as practicable following the earlier of the time at which the fund knows, or reasonably should have known, that the required documents are not available in the manner prescribed by the proposed rule.

We are proposing this safe harbor because we recognize that there may be times when, due to events beyond a fund's control, such as system outages or other technological issues or natural disasters, a fund may temporarily not be in compliance with the web posting

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465 Proposed rules 30e-1(b)(2)(iv) and (v); *see also infra* footnote 529 (discussing similar provisions in proposed rule 498B(e)(2)(ii) and parallel provisions in current rule 498(f)(3)(ii)).

466 *See* proposed rule 30e-1(b)(2)(vi). The rule provides that the requirements in paragraphs (b)(2)(i) through (v) of the rule (*i.e.*, the posting requirements) shall be deemed to be met, notwithstanding the fact that the materials required by paragraphs (b)(2)(i) and (ii) of the rule are not available for a period of time in the manner required by the posting requirements, so long as certain conditions are met. *See id.*

467 *See* proposed rule 30e-1(b)(2)(vi)(A) and (B).

requirements of the proposed rule.[468] Providing for this safe harbor by rule may obviate the need to provide exemptive relief from the proposed rule's conditions under these very limited and extenuating circumstances, as we have done from time to time.[469]

Finally, we are proposing to provide funds with some flexibility on how online information is presented. Under our proposal, funds would have the option to satisfy the website availability requirement for the information that the fund would newly have to file on Form N-CSR by posting its most recent report on Form N-CSR, free of charge, on the website specified on the cover page or beginning of the shareholder report.[470] The proposed rule also provides funds flexibility to post the online information separately for each series of the fund or grouped by types of materials and/or by series.[471] If a fund were to group the information on its website by type of materials and/or by series, the grouped information would have to meet certain presentation requirements, including that the grouped information: (1) is presented in a format designed to communicate the information effectively, (2) clearly distinguishes the different types of materials and/or each series (as applicable), and (3) provides a means of easily locating the relevant information (including, for example, a table

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468 *Compare* rule 30e-3 (providing a similar safe harbor provision for funds that rely on rule 30e-3 for the same reasons) and rule 498(e)(4) of the Securities Act (providing a similar safe harbor under the summary prospectus rule for the same reasons) *with* proposed rule 30e-1(b)(2)(vi).

469 *See, e.g.*, Exchange Act Release No. 81760 (Sept. 28, 2017) [82 FR 46335 (Oct. 4, 2017)] (exemptive relief for individuals and entities affected by Hurricanes Harvey, Irma, or Maria); Securities Act Release No. 10416 (Sept. 27, 2017) [82 FR 45722 (Oct. 2, 2017)] (Regulation Crowdfunding and Regulation A relief and assistance for individuals and entities affected by Hurricanes Harvey, Irma, or Maria); *see also* Rule 30e-3 Adopting Release, *supra* footnote 14, at n.135.

470 *See* proposed rule 30e-1(b)(2)(i).

471 *See* proposed rule 30e-1(b)(2)(vii).

of contents that includes hyperlinks to the specified materials and series).[472] This proposed provision is designed to allow funds to tailor the presentation of information on their websites to the unique aspects of their funds, while presenting the information in a manner that facilitates shareholder access. For example, for a fund complex that includes several funds, each with multiple classes, the fund complex's website could include a master table of contents that contains hyperlinks to the specific materials for each fund and each class.

We seek comments on the proposed website availability requirements, including:

170. The rule as proposed would require that the materials required to be accessible online be publicly accessible, free of charge, at the website specified at the cover page or beginning of the shareholder report, and does not expressly require that the website be the fund's website. Should the rule require that the materials be accessible at the fund's website? Why or why not?

171. The rule as proposed would require that the website information be presented in a format or formats that are convenient for both reading online and printing on paper. Are these proposed format requirements appropriate? Should we instead require that the materials be presented in a format or formats that are human-readable and capable of being printed on paper in human-readable format? Why or why not?

172. Are there any additional presentation or formatting requirements that we should adopt to facilitate investor access to the information that would appear online? For example, should we require that each item appear separately on the fund's website under a

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472 *See id.*

relevant header instead of permitting, as proposed, a fund to post its Form N-CSR to satisfy the requirement to make certain information that the fund would file on Form N-CSR available online?

173. The proposed rule would contain a safe harbor for instances in which the online materials are not available for a temporary period of time. Is the safe harbor as proposed appropriate, or should we modify it in any way? For example, should the rule be more prescriptive as to the period of time in which a fund must take action to resolve any issues?

174. Should we, as proposed, provide funds the flexibility to either post the online information separately for each series of the fund or to group the information by types of materials? Why or why not? Should we, as proposed, allow funds to group the material by type or by series? Are there other type of groupings that we should allow? If we allow funds to group the information posted online, should we require the grouped information to meet the presentation requirements discussed above? Are there any additional presentation requirements that we should consider?

### 3. Proposed Delivery Upon Request Requirements

We are proposing to require funds to send, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, a paper copy of any of the materials discussed above to any person requesting such a copy within three business days[473] after receiving a

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[473] The three-business-day timeframe also appears in similar existing conditions with respect to requests for copies of other similar documents. Based on staff experience in these other contexts, we believe that three business days generally is an appropriate time frame to send shareholders paper copies of information. *See, e.g.*, rule 498(f)(1) (parallel delivery upon request requirements for funds and intermediaries relying on rule 498); *see also* Instruction 3

request for a paper copy.[474] A fund must also send, at no cost to the requestor by email or other reasonably prompt means, an electronic copy of any of the materials discussed above within three business days after receiving a request for an electronic copy.[475] These requirements would apply also to any financial intermediary through which shares of the fund may be purchased or sold. We understand that some investors continue to prefer to receive information in paper format, and therefore our proposal is designed to allow shareholders to have ready access to the fund information that appears online in print format, if they so prefer, or to receive electronic copies of this same information.[476]

We seek comment on our proposal to require funds to provide shareholders, upon request, paper or electronic copies of the information that the proposed rule would require to appear online, including the following issues:

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to Item 1 of Form N-1A (requiring the SAI and shareholder reports to be sent within three business days of receipt of a request).

474 *See* proposed rule 30e-1(b)(3)(i); *see also supra* Section II.C. This information includes: the fund's most recent financial statements and financial highlights; changes in and disagreements with fund accountants; matters submitted for a shareholder vote; remuneration paid to directors, officers, and others; a statement regarding the basis for the board's approval of the fund's investment advisory contract; and portfolio holdings information as of the close of the most recent first and third fiscal quarters.

475 *See* proposed rule 30e-1(b)(3)(ii). The proposed requirement to send an electronic copy of materials may be satisfied by sending a direct link to the online materials; provided that a current version of the materials is directly accessible through the link from the time that the email is sent through the date that is six months after the date that the email is sent and the email explains both how long the link will remain useable and that, if the recipient desires to retain a copy of the materials, he or she should access and save the materials.

476 *See supra* footnote 71 (discussing the 2012 Report on Investing Testing of Fund Annual Reports, which stated that there was a lack of consensus among shareholders who participated in the survey regarding their preferences for receiving information about their fund investments in print or electronically).

175. Are the proposed delivery upon request provisions appropriate? Is the delivery time frame that the provisions would require appropriate? For example, would a fund experience challenges sending a paper copy of the information to a requesting shareholder within three business days, and if so what would these challenges be? Would other time frames for sending a paper copy be more appropriate, and if so, what should these time frames be?

176. Do funds require additional clarity regarding what would qualify as a "reasonably prompt means" of delivering an electronic copy of any of the materials discussed above? If so, what type of guidance should the Commission provide?

177. Should we incorporate a provision in rule 30e-1 that would permit investors the option to notify the fund (or the shareholder's financial intermediary) that the investor wishes to receive paper copies of reports on a going forward basis? Why or why not?

### H. Disclosure Item Proposed to Be Removed from Shareholder Report and Not Filed on Form N-CSR

In general, we are proposing that the disclosure items that funds currently have to include in their annual and semi-annual reports would either be retained in those reports (some items in a simplified form, and some items only in the annual report), or instead filed on Form N-CSR and made available online. However, with respect to the management information table that currently appears in funds' annual reports, we are proposing to remove this disclosure item from the shareholder report without requiring its disclosure elsewhere.[477]

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[477] We are also proposing to remove the requirement that a fund provide a statement in the annual report that the SAI includes additional information about fund directors. This requirement would be replaced by a more general statement on the cover page of the proposed shareholder report that describes how a shareholder can obtain additional information about the fund. *See*

Currently, a fund is required to disclose certain information about each of the fund's directors and officers in the annual report ("management information table").[478] This information is also included in the fund's SAI.[479] The Commission adopted these requirements in order to provide shareholders with basic information about the identity and experience of the fund's directors and to highlight for shareholders any potential conflicts of interests that the fund's directors and officers may have that would be relevant to shareholders.[480]

While we continue to believe that shareholders should have access to information regarding fund directors, we believe it is unnecessary to include this disclosure in multiple disclosure documents. We also preliminarily believe that the management information table is not well suited to the fund's shareholder report because it pertains less directly to retail shareholders' understanding of the operations and performance of the fund and does not lend

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*supra* footnote 137 (discussing this proposed requirement) and proposed Item 27A(b)(4) of Form N-1A.

478 *See* Item 27(b)(5) of Form N-1A. For each director and officer, a fund must disclose: (1) name, address, and age; (2) position(s) held with the fund; (3) term of office and length of time served with the fund; (4) principal occupation(s) during the past five years; (5) number of portfolios in the fund complex overseen by the director; and (6) other directorships held by the director.

479 *See* Item 17(a)(1) of Form N-1A (requiring the inclusion of the management information table in the fund's SAI).

In addition, when a fund solicits a shareholder vote with respect to the election of directors or executive officers, the fund must provide shareholders with a proxy statement that includes information regarding the candidates for election similar to the management information table. *See* Item 22(b) of Schedule 14A.

480 *See* Independent Directors Release, *supra* footnote 86 at text following n.69.

itself to the type of focused disclosure that the proposed annual and semi-annual reports are designed to include.[481]

We considered whether we should propose to require funds to file the management information table on Form N-CSR or to post it online. We determined, however, not to propose such a requirement because the information included in the management information table does not frequently, or significantly, change from year to year. The most significant changes to this information usually occur when the fund has an election of directors, which would require disclosure of this information for the candidates standing for election in the relevant fund proxy statement. The results of such an election would be reflected in the fund's SAI, which is updated annually. Therefore, we believe that it would be unnecessarily duplicative for funds to also include this information on Form N-CSR.

We seek comment on our proposal to remove the management information table from the annual report, and specifically on the following issues:

178. Should we require funds to include the management information table in the proposed annual report? If so, why? Should this information also be included in the proposed semi-annual report? Is the management information table useful to shareholders to monitor and assess their ongoing investment in a fund? Why or why not?

179. Rather than removing this disclosure entirely from the shareholder report, should we require funds to provide certain data points regarding fund management (for example, any subset of the disclosure about directors and officers that funds currently have to

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481 *See* ICI Comment Letter I (recommending that the management information table not be included in the annual report because it is technical in nature).

include in the management information table) in their shareholder reports? If so, what information and why, and should it be included in the semi-annual report as well as the annual report? For example, should we require disclosure of other directorships held by the director? Should we require disclosure of information in the management information table only with respect to interested directors? Or should we require a fund to disclose in its shareholder reports only if any changes have occurred during the reporting period with respect to management information (other than changes that the proposed rules already would require funds to disclose in the annual report's discussion of fund changes)?

180. Should we require funds to file the management information table on Form N-CSR? Should we require funds to post this table online? Should we require funds to do both? Would shareholders benefit from having the information in one or both locations? What benefit would this provide to shareholders and other market participants, in light of the fact that this disclosure already appears in the SAI and in proxy statements for the election of directors?

## I. Proposed Rule 498B and Treatment of Annual Prospectus Updates under Proposed Disclosure Framework

### 1. Overview

In addition to the changes we are proposing to the requirements for fund shareholder reports, we are also proposing new rule 498B, which would address shareholders' continued receipt of annual prospectus updates following their initial investment in an open-end fund. Like the proposed new requirements for funds' shareholder reports, proposed rule 498B uses layered disclosure concepts to tailor funds' required disclosures to the informational needs of different types of investors. Under the proposed rule, investors would continue to receive a prospectus in connection with their initial fund investment, as they do today. Thereafter, a

shareholder would no longer receive annual prospectus updates, in light of the fact that the fund's current prospectus would be available online, and the shareholder would be receiving (1) tailored shareholder reports (which would include a summary of material fund changes in annual reports), and (2) timely notifications regarding material fund changes as they occur. This new rule is designed to further the disclosure goals discussed above, including improving fund disclosure by tailoring it to the needs of new versus existing investors, addressing concerns about duplicative and overlapping disclosure materials, and responding to investors' expressed preferences for simplified, layered disclosure that highlights key information.[482]

*Legal Operation of Proposed Rule 498B*

Specifically, proposed rule 498B would allow a fund to satisfy any obligations under section 5(b)(2) of the Securities Act to have a statutory prospectus precede or accompany the carrying or delivery of a security to the fund's existing shareholders to be satisfied under specific conditions. Those conditions would be: (1) the existing shareholders have been previously sent or given a prospectus in order to satisfy any obligation under section 5(b)(2) of the Securities Act, such as in connection with their initial investment in the fund; (2) certain specified disclosure materials (including, among other things, current summary and statutory prospectuses) appear online; and (3) existing shareholders receive notices of certain material changes to the fund when those changes occur.[483] The proposed rule also includes delivery upon request and website presentation requirements (which are not conditions of reliance on

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482 *See generally supra* Section II.A.

483 *See* proposed rule 498B(b) and (c). Under our proposal, existing shareholders would also receive annual and semi-annual reports pursuant to proposed rule 30e-1 and proposed Item 27A of Form N-1A.

the proposed rule to satisfy prospectus delivery obligations), including that a fund must: (1) deliver, in a manner consistent with the requester's delivery preference, a copy of any of the fund documents that the rule would require to be made available online, at no charge to the requester, subject to certain additional conditions; and (2) ensure that those fund documents required to appear online are presented in a format convenient for both reading online and printing on paper, and can be permanently retained in such a format by persons accessing those materials, free of charge.[484]

*Proposed Rule 498B and the Legal Responsibility for Misleading Disclosures*

The proposed rule would not relieve funds of any legal responsibility for misleading disclosures with regard to the fund documents required to be made available online. In particular, a fund that relies upon the layered disclosure framework in proposed rule 498B would be subject to the same prospectus and registration statement liability and anti-fraud provisions as if the fund had sent or given those prospectuses to existing shareholders.[485] Those liability provisions would apply to the summary and statutory prospectuses required to appear online, together with information incorporated therein by reference.

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484 *See* proposed rule 498B(d).

485 *See, e.g.,* sections 11, 12(a)(2), and 17(a)(2) of the Securities Act. Under section 11 of the Securities Act, purchasers of an issuer's securities have private rights of action for untrue statements of material facts or omissions of material facts required to be included in the registration statement or necessary to make the statements in the registration statement not misleading. Under section 12(a)(2) of the Securities Act, sellers have liability to purchasers for offers or sales by means of a prospectus or oral communication that includes an untrue statement of material fact or omits to state a material fact that makes the statements made, based on the circumstances under which they were made, not misleading. Section 17(a)(2) of the Securities Act is a general antifraud provision which makes it unlawful for any person in the offer and sale of a security to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

### 2. Scope of Proposed New Rule 498B

*Delivery Obligations for New Investors and Existing Shareholders*

The proposed new rule is designed to tailor delivery obligations for new investors and existing shareholders in open-end funds registered on Form N-1A, to match their respective informational needs. For this reason, proposed rule 498B would continue to require that investors receive a fund prospectus in connection with their initial fund investment, and would affect funds' prospectus delivery obligations only as they apply to existing shareholders. The prospectus provides forward-looking information and acts as the principal selling document for potential investors. It provides certain key information, including disclosures regarding the fund's: (1) investment objectives; (2) costs; (3) principal investment strategies, principal risks, and performance; (4) investment advisers and portfolio managers; (5) purchase and sale of fund shares; (6) tax information; and (7) financial intermediary compensation.[486] We believe it is important for new investors making an initial investment decision to receive a prospectus that includes this information to inform their investment decisions and facilitate fund comparisons. The proposed shareholder reports would contain similar information to some of those prospectus disclosures where we believe that both new investors and existing

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*See also infra* footnotes 514 and 658.

486 *See* Items 2 through 8 of Form N-1A; *see also* proposed rule 498(b)(2) (requiring a summary prospectus to contain disclosures required by Items 2 through 8 of Form N-1A); 2009 Summary Prospectus Adopting Release, *supra* footnote 10 (stating that the information required in the summary prospectus is key information that is important to an investment decision).

shareholders would benefit from receiving this information to make informed decisions about whether to buy, sell, or hold fund shares.[487]

*Definition of "Existing Shareholder" Under Proposed Rule 498B*

For the purposes of proposed rule 498B, an "existing shareholder" would generally be a shareholder to whom a summary or statutory fund prospectus was sent or given to satisfy any obligation under section 5(b)(2) of the Securities Act and who has held fund shares continuously since that time.[488] This definition is designed to ensure that after an investor has received a prospectus, that investor would have received notice regarding all subsequent material changes to the fund. The investor would have received notice of these changes either through prospectus amendments or supplements that would be sent or given per current practice to investors that hold fund shares (before the fund relies on proposed rule 498B), or via notices of material changes that proposed rule 498B would require (after the fund relies on proposed rule 498B). We believe that the definition's requirement that the shareholder continuously hold the fund shares is necessary because, if the investor purchased fund shares and then subsequently sold these shares, that investor would not receive notification of material fund changes that occurred when he or she did not hold fund shares. In this case, we believe it would be appropriate for such an investor to once again receive a fund prospectus before falling under a disclosure framework that provides information tailored to continuously existing investors.

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487 For example, both the proposed annual and semi-annual reports and the prospectus would include fund fee information (the shareholder reports in the form of the expense example, and the prospectus in the form of the fee table). *See supra* Section II.B.2.b and *infra* Section II.H.1.

488 *See* proposed rule 498B(a)(2).

For purposes of the proposed rule 498B, an "existing shareholder" of a money market fund also would generally be a shareholder to whom a summary or statutory fund prospectus was sent or given to satisfy any obligation under section 5(b)(2) of the Securities Act. However, the requirement that the shareholder must have continuously held fund shares since that time would differ under the proposed rule with respect to shareholders in a money market fund. This difference would recognize the manner in which money market funds are used by investors and practices that we understand are generally common with money market funds. Money market funds are often used as cash vehicles with frequent withdrawals and deposits, and thus a money market fund investor who has sold all shares may often purchase additional shares shortly thereafter. For this reason, we understand that money market funds generally send or give prospectus supplements and amendments to former shareholders who maintain accounts in those funds. Similarly, we understand that money market funds generally apply the same treatment to beneficial owners of such accounts opened through financial intermediaries, such as brokerage clients who have their cash deposited in a money market fund sweep account maintained in the name of the broker but for which the brokerage client is a beneficial owner. Therefore the definition of "existing shareholder" would also include a shareholder in a money market fund who has continuously maintained (or been a beneficial owner of) an account with that fund because a fund prospectus has been sent or given to that shareholder.[489]

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[489] *See* proposed rule 498B(a)(2). The proposed rule would further define "account" as any contractual or other business relationship between a person and a fund to effect transactions in securities issued by the fund, including the purchase or sale of securities.

*Scope Excludes Variable Annuity and Variable Life Insurance Contracts*

Proposed rule 498B would be available only with respect to funds registered on Form N-1A.[490] Proposed rule 498B would not apply to investors that hold the fund through a separate account funding a variable annuity contract offered on Form N-4 or a variable life insurance contract offered on Form N-6.[491] The Commission recently adopted 17 CFR 230.498A [rule 498A], which provides that prospectus delivery requirements under section 5(b)(2) of the Securities Act are satisfied with respect to those investors if the fund's current prospectuses and certain other documents appear online and certain other conditions are met.[492] Rule 498A, like the disclosure framework for funds that we are proposing, relies on a layered disclosure approach that tailors the disclosure that investors receive to the informational needs of both new and ongoing investors in variable contracts. The conditions associated with the satisfaction of prospectus delivery requirements pursuant to rule 498A are tailored to the unique nature of variable annuity and variable life insurance contracts, and provide disclosures and protections that we believe are more appropriate for investors in those contracts (compared to disclosures and protections associated with the satisfaction of prospectus delivery requirements pursuant to proposed rule 498B).[493] Accordingly, we are not proposing to make proposed rule 498B available for those products.

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490 *See* proposed rule 498B(a)(2) and (3).

491 *See* proposed rule 498B(a)(2); *see also generally* Form N-4 [17 CFR 239.17b and 274.11c] and Form N-6 [17 CFR 239.17c and 274.11d].

492 *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27 (adopting rule 498A under the Securities Act); rule 498A(j) (providing a new option to satisfy prospectus delivery requirements for mutual funds available through separate accounts funding a variable contract).

493 For example, rule 498A permits prospectus delivery requirements for funds serving as

We seek comment on the scope of our proposed new rule 498B and specifically on the following issues:

181. Is the way that the proposed new rule would address existing fund shareholders' continued receipt of annual prospectus updates appropriate, in light of the other aspects of the rules and rule amendments we are proposing? Would existing shareholders be receiving the right set of information under the proposal, and would such information be delivered or made available in an appropriate manner?

182. Should we make proposed rule 498B mandatory for all funds (instead of a permissive rule, as proposed)? If so, why? Would a permissive rule result in confusion for fund shareholders (because existing shareholders in funds that choose not to rely on the rule would continue to receive annual prospectus updates year over year), or produce any other detrimental effects? What would be funds' primary considerations in determining whether to rely on proposed rule 498B?

183. Would the proposed rule's layered disclosure approach adequately protect existing shareholders who have no or limited internet access or who prefer not to receive information about their investments over the internet?

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underlying investment options under a variable contract to be satisfied if, among other things, an initial summary prospectus is used that provides investors with certain key summary information about those funds. *See* rule 498A(j)(1)(i). This condition is designed to further the use of initial summary prospectuses for variable contracts, and is tailored to enhance the ability of variable contract investors to make informed investment decisions regarding how to allocate their investments in the variable contract. *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27, at Section II.B.2.

184. Should we modify the proposed scope of the rule in any way? For example, should the scope be extended to include new investors, or investors that hold the fund through a separate account funding a variable insurance contract? Why or why not?

185. Is the definition for "existing shareholder" under the proposed rule appropriate? If not, how should we revise this definition? Is it appropriate that, as proposed, the definition of "existing shareholder" includes a shareholder in a money market fund who has continuously maintained (or been a beneficial owner of) an account with that fund because a fund prospectus has been sent or given to that shareholder? Do commenters agree that money market funds generally continue to send or give prospectus supplements to former shareholders, so long as those shareholders maintain (or are beneficial owners of) an account with the money market fund? Are there any general limitations on this industry practice or other limitations that we should add with regard to this provision in the proposed rule? Should the proposed definition of "existing shareholder" also include specific provisions for certain types of funds other than money market funds, and if so, what types of funds, and what should these provisions be, and why? For example, should the rule generally reference funds used for cash management purposes, as opposed to (or in addition to) simply referencing money market funds?

186. Proposed rule 498B's layered disclosure framework for existing shareholders would only apply to open-end management investment companies. To what extent, if any, should we extend this aspect of our proposal to other types of investment companies? If we were to do this, should we modify any of the conditions to rely on proposed rule 498B, and if so, how? For example, proposed rule 498B is designed to work in conjunction with our proposed amendments to funds' shareholder reports. How should we modify the rule to apply

in contexts where other types of investment companies (for example, registered closed-end funds and BDCs, and ETFs that are organized as unit investment trusts) have different shareholder report requirements than those we propose for open-end management investment companies? Please address the utility and policy implications of implementing a layered disclosure framework for existing shareholders, similar to that which proposed rule 498B would create, in the context of other types of investment companies.

187. If we were to adopt proposed rule 498B, how should we evaluate the effectiveness of the new framework? What methods or approaches should we use to evaluate it, and what areas of the new framework should we focus on in any such review?

### 3. Conditions to Rely Upon Proposed New Rule 498B

A fund would have to satisfy certain conditions in order to rely on the proposed new layered disclosure framework for existing shareholders, as outlined below. Failure to satisfy any of these conditions would mean that the fund could not rely on proposed rule 498B to satisfy prospectus delivery obligations to existing shareholders.

#### a. Website Availability of Certain Fund Documents

To rely on rule 498B, a fund would have to make certain materials publicly accessible, free of charge, at the website address specified on the cover page or at the beginning of the fund's annual and semi-annual reports.[494] These materials would include: the fund's current summary and statutory prospectus, SAI, and most recent annual and semi-annual shareholder reports (collectively, the "rule 498B online fund documents").[495] This set of documents would

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494 *See* proposed rule 498B(c)(1); *see also* proposed rule 498(e) (providing requirements regarding website availability of certain fund documents).

495 The rule 498B online fund documents would not include information required to be filed on

be identical to the set of documents that are publicly accessible online for funds currently relying on rule 498. This proposed condition is designed to implement the contemplated layered disclosure approach by ensuring that current versions of the fund's summary prospectus, statutory prospectus, and SAI would be available online so that existing shareholders who did not receive those documents would have ready access to them in a convenient, centralized location, together with other relevant documents for existing shareholders such as the most recent annual and semi-annual shareholder reports.

The reference to "current" versions is designed to ensure that amendments or supplements to those documents are included in the rule 498B online fund documents as a condition of reliance on proposed rule 498B. Because funds generally continuously offer and sell shares, funds effectively must continuously maintain a current prospectus to satisfy their ongoing obligations to deliver the fund's prospectus to new investors.[496] Thus, a fund relying on proposed rule 498B would be required to maintain current versions of the rule 498B online fund documents so long as the fund is engaged in a continuous offering. Proposed rule 498B would not specify a time frame for maintaining current versions of these documents online,

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Form N-CSR and made available online on a semi-annual basis, as discussed above. *See supra* Section II.D.2. However, this and other information (including information provided in Form N-CSR) that the proposed amendments to rule 30e-1 would require a fund to make available online would have to be made available at the same website address where the rule 498B online fund documents would appear (*e.g.,* the website specified on the cover page or at the beginning of the fund's annual and semi-annual shareholder reports). *See supra* footnote 464 and accompanying text.

[496] *See generally supra* footnotes 11 through 13.

but when the document is no longer "current," a fund would have to replace it with the current version.[497]

Under the proposal, a fund would be required to include a summary prospectus as one of the rule 498B online fund documents.[498] While funds' use of a summary prospectus is optional under rule 498, we estimate that currently 93% of all funds use a summary prospectus.[499] Without requiring a summary prospectus, proposed rule 498B's new layered disclosure framework for existing shareholders could result in funds having less incentive to use a summary prospectus.[500] We believe it is important to make available both a summary prospectus and the statutory prospectus to continue the current approach for funds, which gives investors the option to choose the amount and type of information to review.[501] To the

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497 *But see* rule 498(e) (specifying the time frame for posting current versions of the documents it requires to appear online (*i.e.,* on or before the time that the summary prospectus is sent or given and until 90 days after the date the fund security is carried or delivered (in the case of reliance on rule 498(c)) or the date that the communication is sent or given (in the case of reliance on rule 498(d))).

498 The proposed rule specifies that the current summary prospectus that the fund makes available online must comply with the requirements described in rule 498(b). *See* proposed rule 498B(a)(7).

499 *See supra* footnote 82.

500 For example, the option that proposed rule 498B would provide would reduce—or possibly fully eliminate—the cost savings currently associated with printing and mailing a summary prospectus as opposed to the statutory prospectus, because those summary prospectuses would be made available online instead of being printed and mailed. *See also* 2009 Summary Prospectus Adopting Release, *supra* footnote 10, at nn.400 and 401 (discussing the cost savings associated with printing and mailing a mutual fund summary prospectus).

501 The layered disclosure framework represented by the summary prospectus was designed to provide investors with "ready access to the information that investors need, want, and choose to review in connection with a mutual fund purchase decision." *See* 2009 Summary Prospectus Adopting Release, *supra* footnote 10, at Section III.B.1. In adopting the summary prospectus framework, the Commission stated: "we believe that the new rule will result in funds providing investors with more useable information than they receive today in a format that investors are more likely to use and understand." *Id.*

extent that existing shareholders might find it useful to review a fund prospectus (for example, in connection with a prospective additional investment in the fund), this condition would continue to make summary information about the fund available online, which we believe investors may be more likely to use and understand than the lengthier statutory prospectus.[502]

Although funds would be required to prepare a summary prospectus to comply with the conditions of rule 498B, a statutory prospectus could still be used to satisfy prospectus delivery obligations under section 5(b)(2) of the Securities Act. We understand that some funds that prepare summary prospectuses still choose to deliver a statutory prospectus under certain circumstances. For example, we understand that certain funds that prepare summary prospectuses still choose to send or give a statutory prospectus when investors are invested in multiple series covered by a single statutory prospectus. Likewise, certain funds may choose to send or give a statutory prospectus for certain product lines where the fund believes it would be helpful for investors to see the full suite of fund options (*e.g.*, target date funds, sector funds, or target risk funds), to the extent that multiple series of the fund are described in a single statutory prospectus.[503]

The proposed rule would include additional conditions regarding the format, or formats, in which the rule 498B online fund documents would be presented on the website.

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Further, commenters have expressed an overall preference for concise, layered summary disclosure. *See supra* footnotes 27 through 30 and accompanying text.

502 *See* 2009 Summary Prospectus Adopting Release, *supra* footnote 10, at paragraph accompanying n.195; Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27, at text accompanying and following n.1038.

503 *See* rule 498(a)(3) and (b)(4) under the Securities Act (collectively limiting the scope of a summary prospectus to a single fund, or series).

First, the format must be human-readable and capable of being printed on paper in human-readable format.[504] This requirement is designed to help ensure that the information provided will be user-friendly, both online and when printed. This would impose a standard of usability on the online information that is comparable to the readability of a paper document.

Second, the format must provide persons with the ability to move back and forth within documents and between certain documents. Specifically, the format must permit persons accessing the statutory prospectus or SAI to move directly back and forth between each section heading in a table of contents of such document and the corresponding section of the document.[505] Similarly, the format must permit persons accessing the summary prospectus to move directly back and forth between: (1) each section of the summary prospectus and any section of the statutory prospectus and the SAI that provides additional detail concerning that section of the summary prospectus; or (2) links located at both the beginning and end of the summary prospectus, or that remain continuously visible to persons accessing the summary prospectus, and tables of contents of the prospectuses and the SAI.[506] These requirements are designed to result in online information that is in a better and more usable format than the same information when provided in paper. Being able to move directly within and between documents would be more efficient than the equivalent task in a paper document (*i.e.*, flipping through multiple pages).

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504 Proposed rule 498B(c)(1)(ii)(A).

505 Proposed rule 498B(c)(1)(ii)(B).

506 Proposed rule 498B(c)(1)(ii)(C).

Additionally, documents required to appear online would be subject to retention requirements that would require that persons accessing the rule 498B online fund documents would have to be able permanently to retain, free of charge, an electronic version of such materials in a format that is human-readable and permits persons accessing the statutory prospectus or SAI to move directly back and forth between each section heading in a table of contents and the corresponding section of the document.[507] This condition would provide shareholders with the same retention capabilities they would have with paper copies of the information, while still maintaining the technological enhancements associated with the electronic versions of the materials.

Further, there would be a safe harbor available if the rule 498B online fund documents were temporarily unavailable at the specified website, provided that the fund meets certain conditions.[508] Those conditions would be substantially similar to the conditions associated with the proposed safe harbor provision addressing the website availability of the materials that the fund files on Form N-CSR.[509] As with that safe harbor, we recognize that there may be times when, due to events beyond a fund's control, a fund may temporarily not be in compliance with the web posting requirements of proposed rule 498B. Providing for this safe

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507 Proposed rule 498B(c)(1)(iii).

508 Proposed rule 498B(c)(1)(iv).

509 *See* proposed rule 30e-1(b)(2)(vi); *see supra* footnotes 479 through 481 and accompanying text.

harbor by rule may obviate the need to provide exemptive relief from the proposed rule's conditions under extenuating circumstances, as we have done from time to time.[510]

These website availability conditions are modeled on the parallel conditions that rule 498 includes, requiring funds that wish to rely on that rule's summary prospectus option to make certain materials available online.[511] We believe that this would create efficiencies for funds that wish to rely on proposed rule 498B, because many of these funds would likely be familiar with these conditions and would already have compliance processes in place pursuant to rule 498 to the extent that these funds choose to send or give summary prospectuses to new shareholders.

We generally seek comment on the proposed website availability requirements, and specifically on the following issues:

188. Are the proposed website availability requirements an appropriate condition to rely on proposed rule 498B? Why or why not?

189. Are the proposed rule 498B online fund documents—the fund's current summary and statutory prospectus, SAI, and most recent annual and semi-annual shareholder reports—an appropriate set of materials for funds to have to make available online in order to rely on the proposed rule? Why or why not? Should this set of materials include any additional materials? Should we modify the proposed rule to reduce in any way the set of materials funds would have to make available online? Are there any revisions or

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510 *See also supra* footnote 469 (discussing similar safe harbor in the context of proposed rule 30e-1).

511 *See* rule 498(e).

simplifications that we should make to account for the information that the proposed amendments to rule 30e-1 would require a fund to post online? If so, should we make any conforming changes to proposed rule 30e-1? In addition to requiring the fund's most recent annual and semi-annual shareholder report to appear online, should we also include a requirement that the fund (or a financial intermediary through which shares of the fund may be purchased or sold) must have provided existing shareholders with a paper or electronic copy of the fund's most recent annual and semi-annual report as a condition of reliance on the proposed rule? Alternatively, should we include as a condition of reliance that the fund must adopt policies and procedures reasonably designed to ensure delivery of the fund's most recent annual and semi-annual shareholder reports?

190. Is it appropriate effectively to require funds that wish to rely on proposed rule 498B to prepare a summary prospectus that complies with the requirements outlined in rule 498(b)? To what extent is it important to make summary prospectuses available to investors? Should we, as proposed, include a summary prospectus among the list of rule 498B online fund documents? If we do not require a summary prospectus to be included, what would be the effects on investors? Would funds continue to prepare summary prospectuses, and if not, what would be the effects on investors? Under proposed rule 498B, updated prospectuses would generally be posted online instead of being printed and mailed to existing shareholders, and therefore there would be fewer economic incentives for funds to prepare and use a shorter summary prospectus in addition to the required statutory prospectus. If funds cease to prepare

summary prospectuses, should we rescind rule 498 since that rule would essentially be moot? If so, what would be the effects on investors?[512]

191. The website availability conditions in proposed rule 498B are modeled on the parallel conditions in rule 498. If we modify any of the website availability conditions in proposed rule 498B that have parallel conditions in rule 498 (and rule 498A), should we similarly modify the parallel conditions of rule 498 and/or rule 498A? Should proposed rule 498B include parallel provisions to any other conditions in rule 498 and, if so, which ones and why? For example, should proposed rule 498B include a provision similar to that in rule 498(b)(3)(iii) specifying when information is conveyed to a person for purposes of 17 CFR 230.159 [rule 159 under the Securities Act]? Are there provisions not included in current rule 498 that we should include in rule 498B?

192. Although we estimate that 93% of funds currently use a summary prospectus, are there significant issues that could prevent a fund from preparing a summary prospectus and that would therefore prevent the fund from relying on the proposed prospectus delivery option? If not, and to the extent that a summary prospectus would provide investors with summary information that they might be more likely to use and understand relative to the broader (and potentially more complex) disclosures in a statutory prospectus, should we require funds relying upon proposed rule 498B to use a summary prospectus to satisfy prospectus delivery obligations (as opposed to allowing satisfaction of such obligations via a statutory prospectus)?

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[512] *See, e.g.*, *supra* footnote 501 and accompanying text.

193. Are there any aspects of the proposed website availability provisions of proposed rule 498B that should be harmonized, modified or clarified to reflect the different purposes of or interactions between rule 498 and proposed rule 498B? For example, to the extent that proposed rule 498B(c)(1) largely restates the web posting framework reflected in proposed rule 498(e), should proposed rule 498B instead reference, in whole or in part, the requirements of proposed rule 498(e)? If so, how should we address the fact that the website availability requirements of rule 498 are based upon the assumption that a summary prospectus will be sent or given to shareholders, which would not necessarily be the case under proposed rule 498B (because the rules would operate independently of one another, and a fund relying on rule 498B would not also have to rely on rule 498)? For example, rule 498 provides that the documents required to be made available online must appear at the website address specified in the summary prospectus sent or given to investors, whereas under proposed rule 498B existing shareholders would not be sent or given a summary prospectus.

194. Rule 498 specifies the time frame for posting current versions of the documents it requires to appear online.[513] Proposed rule 498B, on the other hand, specifies that "current" versions of the required online materials must appear online, and we envision that this requirement would in effect dictate the required time frame for posting (*i.e.*, when the prospectus, SAI, or annual or semi-annual shareholder report is no longer current, it would be replaced online with a current version). Should we revise proposed rule 498B to parallel the

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[513] The time frame for posting current versions of the documents is on or before the time that the summary prospectus is sent or given and until 90 days after the date the fund security is carried or delivered (in the case of reliance on rule 498(c)) or the date that the communication is sent or given (in the case of reliance on rule 498(d)).

provisions in rule 498(e) regarding when the required online materials must be accessible and when they must be removed? If so, how should we address the fact that no prospectuses would be delivered to existing investors under proposed rule 498B (whereas under rule 498, the time frame for web posting is triggered by the delivery of a summary prospectus)?

195. Are there alternate website posting frameworks that would be more appropriate for us to incorporate into rule 498B, rather than—as proposed—a framework that reflects the website posting requirement of rule 498?

b. Notice of Material Changes

Funds generally maintain current prospectuses by filing annual post-effective amendments to their registration statement and, as necessary, supplementing or "stickering" the prospectus or SAI to reflect material or other changes to the information disclosed.[514] Rather than bearing the expense of sending a prospectus with each confirmation of an investor's purchase of additional shares, which often occurs on a periodic basis (*e.g.,* monthly), most registrants instead send copies of the new prospectus (or prospectus

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514 *See* section 10(a)(3) of the Securities Act (requiring, among other things, that a prospectus used more than nine months after the effective date of a registration statement be updated so that the information contained therein shall not be more than 16 months old); *see also* section 11 of the Securities Act (providing a civil remedy for a registration statement that contains "an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading."); rule 408 under the Securities Act [17 CFR 230.408(a)] (requiring registrants to include, in addition to the information expressly required to be included in a registration statement, such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading).

Additionally, funds may supplement or "sticker" their prospectus or SAI. *See generally* rule 497 under the Securities Act.

supplement or sticker) to all investors each time it is updated (or whenever the supplement or sticker is issued).

Under the layered disclosure framework that proposed rule 498B would create, existing shareholders would receive shareholder reports to keep them informed about their ongoing fund investments in lieu of receiving annual prospectus updates. Consequently, existing shareholders would no longer be required to have prospectus supplements or amended prospectuses delivered to them. Therefore, proposed rule 498B includes a requirement that is designed to help ensure that existing shareholders would continue to be informed in a timely manner regarding material changes to the fund (which, for shareholders in funds that are not relying on rule 498B, would otherwise be disclosed in updates to the prospectus). Absent this condition, existing shareholders potentially would not receive notice of a material change to the fund until the next annual shareholder report.[515]

Specifically, if there is a material change with respect to certain topics that the proposed rule specifies, a fund relying on proposed rule 498B would have to send or give existing shareholders notice of that change.[516] This provision would not apply to changes previously disclosed in the fund's most recent annual report to shareholders. The particular

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515 As discussed above, the proposed annual shareholder report would include a discussion of any material changes that have occurred since the beginning of the fund's last fiscal year, or that the fund plans to make in connection with updating its prospectus under section 10(a)(3) of the Securities Act for the current fiscal year, with regard to certain topics. *See supra* Section II.B.2.f. Under our proposal, such disclosure of material changes could be optionally included in semi-annual shareholder reports, but would not be required. *See supra* text accompanying footnote 365.

516 The fund also would have to file a post-effective amendment to its prospectus or a prospectus supplement with the Commission. *See* rules 485 and 497 under the Securities Act (providing requirements for filing post-effective amendments and prospectus supplements).

topics would be the same types of material changes in the proposed annual report.[517] We believe this approach would have certain benefits over a more principles-based approach, such as a more general requirement that a fund must send notice of "any material change" to the fund. Specifically, we believe that the proposed approach would provide more certainty to funds about the types of changes that would necessitate notice to shareholders, and would enhance consistency of such disclosures across funds and across disclosure documents. These types of material changes also generally align with the prospectus disclosure items the Commission requires in summary prospectuses (and in the summary section of statutory prospectuses) and that we understand investors typically use to make investment decisions.[518] We understand that investors often use information about these topics to inform initial

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517 *See* proposed rule 498B(c)(2) (referencing Item 27A(g) of Form N-1A with regard to the scope of topics for which notice of material changes would be required (and permitted) to be provided to existing shareholders); *see also* Item 27A(g) of proposed Form N-1A, which would require disclosure of any material changes with regard to:

(1) The fund's name;

(2) The fund's investment objectives or goals;

(3) With respect to material increases, the fund's ongoing annual fees, transaction fees, or maximum account fee;

(4) The fund's principal investment strategies;

(5) The principal risks of investing in the fund;

(6) The fund's investment adviser(s); and

(7) The fund's portfolio manager(s).

The fund also may describe other material changes that it would like to disclose to its shareholders under Item 27A(g) of proposed Form N-1A.

518 For example, among other things, the proposed notice would require disclosure of changes in the fund's investment objectives or goals, ongoing annual fees, principal investment strategies, and principal risks of investing in the fund, which generally align with summary and statutory prospectus disclosures required by Items 2, 3, and 4 respectively of Form N-1A. *Compare* Item 27A(g) of proposed Form N-1A *with* Items 2 through 8 of proposed Form N-1A.

investment decisions, and similarly we believe that material changes to these items may affect an existing shareholder's assessment of whether to continue to hold, buy, or sell fund shares. In addition funds could disclose other material changes on a discretionary basis, which we believe would provide flexibility to funds to highlight changes that they believe would be of significance to existing shareholders.

To help ensure shareholders receive notice in a timely manner, the proposed rule would require the notice to be provided within three business days of either the effective date of the fund's post-effective amendment filing or the filing date of the prospectus supplement filing, by first-class mail or other means designed to ensure equally prompt receipt.[519] Further, the proposed rule would not specify the form of this notice. Therefore, a fund could satisfy this requirement, for example, by sending existing shareholders the prospectus supplement filed with the Commission, an amended prospectus which reflects the material change, or another form of notice that discusses the change.[520]

Proposed rule 498B would allow "householding" of notices of material changes if the notice satisfies rule 154 under the Securities Act.[521] Rule 154 generally provides that funds may deliver a single copy of a prospectus to investors who share the same address, pursuant to

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519 *See* proposed rule 498B(c)(2). If the shareholder does not specify a delivery preference, the proposed rule would require that the notice be provided in paper. However, notices of material changes could also be delivered electronically, consistent with current Commission guidance, if a shareholder elects electronic delivery. *See, e.g., supra* footnote 21.

520 If a fund sends a separate notice to existing shareholders, the fund must file that notice with the Commission as an attachment to the post-effective amendment or prospectus supplement filed with the Commission regarding that change. *See* rules 485 and 497 under the Securities Act (providing requirements for filing post-effective amendments and prospectus supplements).

521 *See* proposed rule 498B(c)(2).

certain other requirements.[522] Accordingly, funds that wish to household notices of material changes, based on implied consent, would send a notice to each investor at a shared address stating, among other things, that the investors at the shared address would receive one notice of material change(s) in the future unless the investors provide contrary instructions. In addition, at least once a year, funds relying on the householding provision would be required to explain to investors who have provided written or implied consent how they can revoke their consent, and this explanation must be reasonably designed to reach these investors. We anticipate that a fund would generally choose to provide this explanation in the notices of material changes that it provides under proposed rule 498B, and/or in the annual shareholder report.

We generally seek comment on the proposed condition regarding notice of material changes, and specifically seek comment on the following issues:

196. Is the proposed requirement regarding notices of material changes to the fund an appropriate condition to rely on proposed rule 498B? Why or why not?

197. Are the conditions that would necessitate a notice of material changes appropriate? For example, are the categories of topics identified in proposed rule 498B for which material changes would require notice to existing shareholders appropriate? Are those the topics that are most relevant to fund shareholders and their investment decisions? Does the

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[522] Rule 154 provides, among other things, that prospectus delivery obligations may be satisfied if a person delivers a prospectus to investors at the same address, the prospectus is delivered to the investors as a group, and the investors consent to such group delivery. Rule 154 provides certain conditions under which consent may be implied, and further provides that the investors must receive annual notice regarding how they may revoke their consent.

proposed provision allowing funds to disclose additional material changes on a discretionary basis provide funds with appropriate flexibility to address their individual facts and circumstances? To the extent that the Commission adopts rules that include changes to the conditions that would necessitate disclosure of fund changes in shareholder reports, should the Commission adopt those same changes to the corresponding notice of fund changes that would be required pursuant to proposed rule 498B? In contrast, are there any considerations with regard to the disclosure of fund changes that apply uniquely to the notice contemplated by proposed rule 498B, as opposed to the proposed disclosure of fund changes in shareholder reports?

198. Are the requirements for sending the notice of material changes appropriate? Should the rule, as proposed, require the notice to be provided within three business days of either the effective date of the fund's post-effective amendment filing or the filing date of the prospectus supplement filing? Would a longer or shorter period be appropriate? Should the rule, as proposed, require the notice be provided by first-class mail or other means designed to ensure equally prompt receipt? Is this requirement sufficiently clear, or should additional delivery methods be specified in the rule? Would these requirements, together with the requirements to post online updated prospectuses and other additional information, provide sufficient notice to investors of material fund changes? As an alternative to the proposed requirements for sending the notice of material changes, should the rule instead require a fund to post notices of material changes on its website? Would this approach provide investors with sufficient notice of material fund changes, if notice were not sent (either in paper or electronically) directly to investors?

199. Are there any revisions the Commission should make to this aspect of the proposal? For example, instead of allowing flexibility regarding the form of this notice, should the Commission specify a particular format or presentation? If so, what format and why? Likewise, instead of identifying specific topics that would necessitate notice of material changes to existing shareholders, should the Commission adopt a more principles-based approach (that, for example, only requires a fund to send notices of "material changes")? If so, why, and what should the alternative approach require?

### 4. Other Requirements

#### a. Delivery Upon Request of Certain Fund Documents

We are proposing to require a fund (or financial intermediary through which shares of the fund may be purchased or sold) to deliver, in a manner consistent with the person's delivery preference, a copy of the rule 498B online fund documents to any person requesting such a copy. The fund or intermediary must send requested paper documents at no cost to the requestor, by U.S. first class mail or other reasonably prompt means, within three business days after receiving the request for a paper copy.[523] The proposed rule would also require a fund or intermediary to send electronic copies of these documents upon request within three business days.[524] The proposed rule would provide that the requirement to send an electronic

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[523] Proposed rule 498B(d)(1)(i); *see also* rule 498(f)(1) (parallel requirements for funds and intermediaries relying on rule 498). The three-business-day timeframe also appears in similar existing conditions with respect to requests for copies of other similar documents. *See, e.g.,* Instruction 3 to Item 1 of Form N-1A (requiring the SAI and shareholder reports to be sent within three business days of receipt of a request).

[524] Proposed rule 498B(d)(1)(ii); *see also* rule 498(f)(2) (parallel requirements for funds and intermediaries relying on rule 498).

copy of a document may be satisfied by sending a direct link to the online document, so long as certain conditions are met.[525] First, a current version of the document would have to be directly accessible through the link from the time that the email is sent through the date that is six months after the date that the email is sent. Second, the email would have to explain both how long the link will remain useable and that, if the recipient desires to retain a copy of the document, he or she should access and save the document.

Collectively, these requirements are designed to help ensure that an investor has prompt access to the required information in a format that he or she prefers. Under our proposal, an existing shareholder would no longer receive annual prospectus updates, or supplements or updates to the prospectus that the fund makes between annual updates, but would be able to review those and other relevant documents online and also receive those documents directly, in paper or electronic format, upon request. Rule 498 would continue to require a fund to send specified fund documents to shareholders upon request, if the fund relies upon rule 498 to satisfy its prospectus delivery obligations or to send communications after the effective date of the fund's registration statement.[526] However, the delivery upon request obligations of rule 498 would not apply with respect to existing shareholders if the fund were to rely on proposed rule 498B.[527] Thus, under our proposal, we are including

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525 Proposed rule 498B(d)(1)(ii); *see also* rule 498(f)(1) (parallel requirements for funds and intermediaries relying on rule 498).

526 The delivery upon request provisions in proposed rule 498 would be essentially identical to the parallel provisions in proposed rule 498B, including the scope of the documents that would be subject to those provisions. *Compare* proposed rule 498(f)(1) *with* proposed rule 498B(d).

527 *See* proposed rule 498(f)(1).

delivery upon request provisions as conditions of proposed rule 498B that are parallel to the delivery upon request provisions of rule 498.

We seek comment on the delivery upon request provisions of proposed rule 498B, and specifically on the following issues:

200. Are the delivery upon request provisions of proposed rule 498B appropriate? Are they necessary in light of the parallel provisions in rule 498? Is it necessary to have delivery upon request provisions in proposed rule 498B, in light of the fact that the materials subject to these provisions would be required to be available online? Why or why not? Are these considerations different than in rule 498 and/or rule 498A, and should the delivery upon request provisions be retained in rule 498 and/or rule 498A? Why or why not?

201. Should we modify the delivery upon request provisions of proposed rule 498B in any way, and if so, how? For example, should any of the terminology or concepts in the proposed requirement to deliver an electronic copy of a requested document be revised to reflect technological developments or to ensure that they are consistent with the goal of technological neutrality (*e.g.,* email, direct link)? Should persons relying on proposed rule 498B be required to send the rule 498B online fund documents to any requestor within three business days of such request, as proposed? Likewise, if persons relying on proposed rule 498B send a direct link to an online document in response to a request for electronic delivery of that document, should we require a current version of that document to be directly accessible through the link from the time that the email is sent through the date that is six months after the date that the email is sent, as proposed? In either case, would a different time period be appropriate? If we do modify any of the delivery upon request provisions of

proposed rule 498B, should we similarly modify the parallel provisions in rule 498 and/or rule 498A?

202. How does the proposed rule affect shareholders' ability to request paper copies of the rule 498B online fund documents? Are there any changes to the proposed rule that we should consider to make the process for requesting paper copies more convenient for shareholders? Should we require funds to make available to shareholders a way to opt into automatic annual delivery of future summary or statutory prospectuses in a paper format without having to specifically request them each year? What would the operational challenges of this approach be? Should we allow funds to give shareholders the option of automatic delivery in paper?

203. The delivery upon request provisions of proposed rule 498B would not apply to the information funds must post online pursuant to proposed rule 30e-1, because proposed rule 30e-1 has its own delivery upon request provisions. Should we revise proposed rule 498B's delivery upon request provisions in any way to account for the information that proposed rule 30e-1 would address, and if so, are there any conforming changes that we should make to proposed rule 30e-1?

b. Convenient For Reading and Printing

In addition, the proposed rule would require the rule 498B online fund documents to be presented in a format that is convenient for both reading online and printing on paper.[528]

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[528] Proposed rule 498B(d)(2)(i); *see also* rule 498(f)(3)(i) (parallel provision in the rule governing the use of mutual fund summary prospectuses). We recognize that a format that is convenient for reading online might not be the same format that is convenient for printing on paper. A fund could comply with the proposed requirement by presenting the online fund documents on a website in a format that is convenient for reading online, and, separately, making these same

This requirement is designed to ensure that the information appearing online would be user-friendly, both online and when printed. In addition, the proposed rule would require persons accessing the rule 498B online fund documents to be able to retain electronic versions permanently, free of charge, in a format that is convenient for both reading online and printing on paper.[529] Collectively, these requirements impose on the online information a standard of usability that is comparable to the readability and retention of a paper document.

We seek comment on these "convenient for reading and printing" provisions of proposed rule 498B and specifically on the following issues:

204. Are the "convenient for reading and printing" provisions of proposed rule 498B appropriate? Are they necessary in light of parallel provisions in rule 498? Should we modify these provisions in any way? If so, how, and should we also modify the parallel provisions of rule 498 and/or rule 498A? Is the phrase "convenient for reading and printing" sufficiently clear or should we provide additional guidance or rule text?

205. How would the proposed rule affect shareholders' ability to read and print rule 498B online fund documents? Are there any changes to the proposed rule that we should consider to make reading and printing such documents more convenient for shareholders?

206. The "convenient for reading and printing" provisions of proposed rule 498B would not encompass the information funds would be required to post online pursuant to

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documents available on the website in a format that is convenient for printing on paper (*e.g.*, by making a "printer-friendly version" available). We understand that funds commonly use this approach in complying with rule 498.

[529] Proposed rule 498B(d)(2)(ii); *see also* rule 498(f)(3)(ii) (parallel provision in the rule governing the use of mutual fund summary prospectuses).

proposed rule 30e-1, because proposed rule 30e-1 contains similar "convenient for reading and printing" provisions that would cover that information. Should we revise proposed rule 498B's "convenient for reading and printing" provisions in any way to account for the information that proposed rule 30e-1 would require funds to make available online and, if so, are there any conforming changes that we should make to proposed rule 30e-1?

c. Compliance with Other Requirements

The delivery upon request and "convenient for reading and printing" requirements would not be conditions of reliance on proposed rule 498B. We are proposing that failure to comply with these requirements would not negate a person's ability to rely on proposed rule 498B to satisfy its delivery obligations under section 5(b)(2) of the Securities Act.[530] Such failure would, however, constitute a violation of proposed rule 498B.

We recognize that a fund could inadvertently violate the delivery upon request and "convenient for reading and printing" requirements of the rule. For example, weather issues or other forces outside of the fund's control could present challenges for compliance with the three-business-day deadline. Likewise, whether a particular format is convenient for reading online and printing depends on a number of factors and must be decided on a case-by-case basis.[531] In order to provide greater certainty to market participants and funds who seek to rely

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530 *See* proposed rule 498B(d)(3); *see also* rule 498(f)(5) (parallel provision in the rule governing the use of mutual fund summary prospectuses).

531 *See* 2009 Summary Prospectus Adopting Release, *supra* footnote 10, at nn.272 and 273 and accompanying text (relevant factors include the manner in which the online version renders charts, tables, and other graphics; the extent to which the online materials include search and other capabilities of the internet to enhance investors' access to information and include access to any software necessary to view the online version; and the time required to download the online materials).

upon the rule, these requirements would not be conditions to rely upon proposed rule 498B, as discussed in the paragraph above. We seek comment on this provision of proposed rule 498B and specifically on the following issues:

207. Should compliance with any or all of the proposed delivery upon request or "convenient for reading and printing" requirements be a condition of reliance on proposed rule 498B? That is, should failure to comply with these requirements result in a violation of section 5(b)(2) of the Securities Act? Alternatively, should the failure to comply with these requirements be a violation of Commission rules that does not result in an inability to rely on the rule or a violation of section 5(b)(2)?

### J. Amendments Narrowing Scope of Rule 30e-3

Subject to conditions, rule 30e-3 generally permits investment companies to satisfy shareholder report transmission requirements by making these reports and other materials available online and providing a notice of that availability instead of directly mailing the report (or emailing an electronic version of the report) to shareholders.[532] We are proposing to amend the scope of rule 30e-3 to exclude investment companies registered on Form N-1A, which would be sending tailored annual and semi-annual reports under the proposal. We are also proposing conforming amendments to Form N-1A that would remove the current statement that rule 30e-3 requires to appear on a fund's summary and statutory

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[532] Rule 30e-3 Adopting Release, *supra* footnote 14.

prospectus and annual and semi-annual reports informing investors of the change in delivery format options if the fund intends to rely on rule 30e-3 prior to January 1, 2022.[533]

When the Commission adopted rule 30e-3 in 2018, it stated that the rule's new "notice and access" option for transmitting shareholder reports was intended to modernize the manner in which funds deliver periodic information to investors.[534] The Commission also stated that it believed that the new rule would improve investors' ability to access and use this information (for example, by providing investors with access to at least a full year of complete portfolio holdings information in one location), while reducing expenses associated with printing and mailing that are borne by funds, and ultimately, by their investors.[535] Furthermore, the Commission stated that it continues to search for better ways of providing investors with the disclosure that they need to evaluate funds in which they are considering investing or currently hold shares.[536] As part of these general efforts, the Commission noted that it was issuing—at the same time that it adopted rule 30e-3—the Fund Investor Experience RFC, which was directed at investors regarding ways in which fund disclosure, including shareholder reports, may be improved.[537]

As discussed above, the new proposed disclosure framework considers feedback that commenters provided in response to the Fund Investor Experience RFC and reflects

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533 *See* proposed Form N-1A; *see* rule 498(b)(1)(vi) and (vii); paragraph (a)(5) to Item 1 of Form N-1A; paragraph (d)(8) to Item 27 of Form N-1A.

534 *See* Rule 30e-3 Adopting Release, *supra* footnote 14, at paragraph accompanying n.18.

535 *Id.*

536 *Id.* at paragraph accompanying nn.20 and 21.

537 *Id.* at n.20 and accompanying text; *see also* Fund Investor Experience RFC, *supra* footnote 8.

the Commission's continuing efforts to search for better ways of providing investors with the disclosure that they need. The proposed movement away from a notice and access model for open-end fund shareholder report transmission—and towards a model that contemplates direct transmission of concise shareholder reports—reflects our understanding based on responses to the Fund Investor Experience RFC, prior investor testing and surveys, and other disclosure reform initiatives that shareholders strongly prefer layered disclosure.[538] It also reflects a model that certain commenters to the Fund Investor Experience RFC specifically suggested fund investors would find to be useful.[539] Furthermore, the proposed approach reflects the Commission's recent experience with tailoring investment company disclosure requirements to the needs of new versus existing investors.[540] In light of all of these considerations, we preliminarily believe that the proposed disclosure approach represents a more-effective means of improving investors' ability to access and use fund information, and of reducing expenses associated with printing and mailing, than continuing to permit open-end funds to rely on rule 30e-3.[541]

Although funds can generally begin relying on rule 30e-3 on January 1, 2022, funds may rely on rule 30e-3 prior to that date if they include certain legends on fund prospectuses

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538 *See supra* Section I.B.1.

539 *See supra* footnote 44 and accompanying text; *see also supra* footnote 100 and accompanying and following text (discussing Investor Advisory Committee recommendation that the Commission develop an approach to funds' shareholder reports that would rely on summary disclosure and layered disclosure principles).

540 *See supra* footnote 99 and accompanying text.

541 *See infra* Section III.C.2.d (discussing the estimated reduction of printing and mailing costs under the proposed approach.)

and shareholder reports stating that shareholder reports will eventually be available online and no longer will be sent to shareholders.[542] We required an extended transition period and related disclosures in connection with implementation of rule 30e-3 to alert investors that they would no longer be receiving reports in the mail and to provide time for affected investors to tell their fund or financial intermediary that they wished to continue receiving reports in paper, if that was their preference. Under this proposal, in contrast, investors would be receiving this information directly, and so there would not be a need to provide time for investors to express a different preference. Shareholders receiving the annual and semi-annual reports that this proposal contemplates would be receiving tailored information more directly than they would via the rule 30e-3 notice. However, if this proposal is adopted, a fund that has previously relied on rule 30e-3 might wish to communicate to investors the change and could, for example, do so in an annual report sent to investors.[543]

We generally seek comment on the proposed amendments to rule 30e-3, and specifically seek comment on the following issues:

208. The proposed amendments would exclude investment companies registered on Form N-1A from relying on rule 30e-3. Is such exclusion appropriate, in light of our goals of ensuring that all investors in these funds experience the anticipated benefits of the new tailored disclosure framework? Is the proposed approach to the transmission of shareholder reports preferable to the optional shareholder report transmission method that rule 30e-3 currently provides, in terms of the goal of improving investors' ability to access and use fund

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542 *See* Rule 30e-3 Adopting Release, *supra* footnote 14, at text following n.257.

543 *See supra* footnote 275 and accompanying text.

information, and reducing expenses associated with printing and mailing? Does the proposed approach more closely align with shareholders' preferences than the approach under rule 30e-3? Does the proposed approach represent a better way of providing investors with the disclosure they need to monitor their fund investments and make informed investment decisions? Are there any other considerations we should take into account in evaluating whether to adopt the proposed approach in lieu of continuing to permit open-end funds to rely on rule 30e-3's notice and access model?

209. If we were to adopt the proposed rules and amendments for tailored shareholder reports, should we also allow open-end funds to continue to rely on rule 30e-3?[544] Why or why not? If we were to permit funds to continue relying on rule 30e-3, are there any changes we should make to the proposed rules and amendments in light of this? For example, should we prohibit funds that are relying on rule 30e-3 from also relying on proposed rule 498B?

210. To what extent, if any, should the scope of these amendments be extended to exclude other types of investment companies from relying on rule 30e-3? If we were to do this, how should we modify the rule to apply (or not) in contexts where other types of investment companies (for example, registered closed-end funds and BDCs, and ETFs that are organized as unit investment trusts) have different shareholder report requirements and would not have the layered disclosure framework for existing investors that we propose for open-end management investment companies?

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[544] *See generally* Sections II.B through II.D and requests for comment in *supra* Section II.C.3.b.

211. Under our proposal, funds planning to rely or currently relying on rule 30e-3 would not be required to provide notice to investors of the proposed amendments to rule 30e-3 because the amendments would result in those investors directly receiving information tailored to their informational needs. Should we require such notice to investors and, if so, to what extent should we specify the form, timing, and substance of such notice?

212. Are there any difficulties that funds that have already begun to rely on rule 30e-3 would encounter in complying with the proposed changes to the scope of rule 30e-3? What difficulties would these be, and what Commission actions could help mitigate these difficulties? Should the Commission, for example, provide a longer compliance period in connection with any adoption of the proposed amendments to rule 30e-3? If so, should we delay the effectiveness of rule 498B for the same period of time to avoid a period where existing shareholders do not directly receive either a shareholder report or an annual prospectus update?

### K. Proposed Amendments to Fund Prospectus Disclosure Requirements

We are also proposing several amendments to the content of funds' prospectuses. Specifically, two of the critical elements in prospectus disclosure relate to (1) fees and (2) risks, and we are proposing certain changes that we believe will improve disclosure regarding these topics. Our goal is to provide greater clarity and more comparable information with regard to fees and risks and by doing so, improve investor comprehension and facilitate investors' ability to make informed investment decisions.[545]

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[545] *See supra* Section II.A.

### 1. Improved Prospectus Fee Disclosures

In addition to proposing amendments to fee presentation in shareholder reports, we are proposing improvements to prospectus disclosure about fund fees. These fee presentations are different because the annual report expense presentation is designed to help fund shareholders assess and monitor their ongoing fund investments looking back over the prior period, while the prospectus disclosure helps investors assess a prospective fund investment and is based on the fund's current estimated fees.

When considering investing in a fund, fees and expenses are an important factor investors should consider. Fees and expenses can significantly affect a fund's returns. For example, a fund with higher costs must have higher returns than a fund with lower costs to generate the same performance. In addition, differences in costs that appear to be small, for example on an annual basis, may have a large impact when comparing returns of funds over time. Funds disclose their fees in the prospectus and the annual and semi-annual reports. The presentations in each of these contexts disclose information about fees and expenses in a standardized format to help investors compare that information across funds. Despite these existing disclosure requirements and educational efforts, the degree to which investors understand fund fees and expenses remains a significant source of focus and attention, and the Commission and staff have continually sought to improve investors' understanding in this area.[546]

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[546] *See, e.g.,* Investor Bulletin: Mutual Fund Fees and Expenses (May 12, 2014), *available at* https://www.investor.gov/additional-resources/news-alerts/alerts-bulletins/investor-bulletin-mutual-fund-fees-expenses; How to Read a Mutual Fund Shareholder Report, *supra* footnote 316.

We are proposing revisions to simplify the presentation of fees and expenses in the prospectus and help increase investor comprehension.[547] These proposed amendments respond to feedback that commenters provided in response to the Fund Investor Experience RFC.[548] We are proposing to replace the current fee table in the summary section of the statutory prospectus with a "fee summary."[549] The goal of this simplified fee summary would be to streamline the presentation of fees and provide an easier-to-understand presentation that includes fewer data points to help provide a clearer picture of the total costs of investing in a fund. The current fee table, which includes additional detail, would be moved to the statutory prospectus, where it could be used by investors who want additional details about fund fees to supplement the fee summary.[550] In addition, we are proposing to replace certain terms in the current fee table with terms that we believe investors would more easily understand (these terms would also be used in the fee summary, as applicable).

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547 *See* Items 3, 8A, and 27A of proposed Form N-1A. Similarly, we are proposing revisions to simplify fee and expense presentations in annual and semi-annual reports. *See supra* Sections II.B.2.b and II.C.1.

548 The Fund Investor Experience RFC Feedback Flier solicited feedback on the presentation of fees. In response to the question, "Do you think funds clearly disclose their fees and expenses?" 21 of 34 commenters (or 62%) responded that fund fees are not clearly disclosed. In response to the question "How could funds improve the disclosure of fees and expenses?" 21 of 27 commenters (or 78%) responded that fund fee presentations should be simplified.

*See also* Recommendation of the Investor Advisory Committee Regarding Mutual Fund Disclosure (Apr. 14, 2016), *available at* https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-mf-fee-disclosure-041916.pdf ("Through testing, the Commission could identify ways to simplify and clarify the fee table").

549 *See* proposed Item 3 to Form N-1A.

550 *See* proposed Item 8A of Form N-1A.

We are also proposing to permit funds that make limited investments in other funds to disclose AFFE, the fees and expenses associated with those investments, in a footnote to the fee table and fee summary instead of reflecting AFFE as a line item in the fee table and fee summary (as all funds do today).[551] This proposed amendment is designed to enhance consistency of funds' prospectus fee disclosure in recognition that, for funds whose investments in other funds are limited, the fees and expenses of the underlying funds may more closely resemble other costs of investment that are not currently reflected in the prospectus fee table.

a. Current Prospectus Fee Disclosure

Currently, funds must provide two separate presentations of fee information in the prospectus: (1) a table under the heading "Fees and Expenses of the Fund," (the "fee table") which shows shareholder transaction fees and annual fund operating expenses, generally in terms of a percentage of the amount invested in the fund; and (2) an example, which is a hypothetical calculation that shows the estimated expenses, in dollars, that an investor will pay for investing in a fund over different time periods.[552]

The fee table currently includes two categories of fees: "shareholder fees" and "annual fund operating expenses." Shareholder fees are charges that investors pay directly—they are

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551 *See supra* footnote 148 and accompanying text (noting that a fund's shareholder expense presentation does not reflect AFFE because this is not included in a fund's financial statements); *see also infra* footnotes 605 and 606 and accompanying text (discussing current AFFE disclosure requirements).

552 *See* Item 3 of Form N-1A.

deducted from the amount that an investor invests in the fund. These charges typically appear as a percentage of the amount invested, and include:

- Sales charges (also known as "loads"), which generally pay investment professionals compensation for selling shares of a fund to an investor; and
- Other applicable fees related to redemptions, exchanges, and account fees.

Some shareholder transaction fees appear as a dollar amount in the fee table.

Annual fund operating expenses are charges that an investor pays indirectly, because these charges are deducted from fund assets. Annual fund operating expenses appear as a percentage of net assets and generally include:

- "Management fees," which a fund pays to its investment adviser for deciding which investments the fund buys and sells and for providing other related services;
- "Rule 12b-1 fees," which pay for marketing and selling fund shares;
- "Other expenses," which represent various categories, such as auditing, legal, custodial, transfer agency fees, and interest expense; and
- For funds that invest in other funds, AFFE (the fees and expenses of acquired funds).[553]

A fund may also reflect certain waivers that may reduce the fund's total fees.[554]

The example is a hypothetical calculation that shows the estimated expenses that an investor will pay for investing in a fund over different time periods. The goal of the example

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553 *Id.*, *see also* 17 CFR 270.12b-1 [rule 12b-1 under the Investment Company Act].

554 Instruction 3(e) to Item 3 Form N-1A.

is to provide a means for investors to compare expense levels of funds with different fee structures over varying investment periods.[555] The example appears in dollar amounts, based on a hypothetical investment of $10,000, and assumes a 5% annual return over the course of 1, 3, 5, and 10 years.[556]

Funds must also include brief disclosure regarding portfolio turnover immediately following the fee table example.[557] Portfolio turnover measures how often a fund buys and sells its investments. A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when fund shares are held in a taxable account. The portfolio turnover rate will vary depending on the fund's investment strategy. This disclosure is designed to help investors understand the effect of portfolio turnover, and the resulting transaction costs, on fund expenses and performance.[558]

b. Proposed Fee Summary

We propose to require a simplified fee summary that would streamline the presentation of fees and focus on the total costs or "bottom line" of an investment in the

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555 *See* Consolidated Disclosure of Mutual Fund Expenses, Investment Company Act Release No. 16244 (Feb. 1, 1988) [53 FR 3192 (Feb. 4, 1988)].

556 The example does not reflect purchase charges on reinvested dividends and other distributions (as applicable).

If a fund imposes a fee or other charge when an investor sells (redeems) his or her shares, the fund must disclose two expense examples. The first example shows the estimated expenses of investing in the fund if the investor continues to hold his or her shares throughout the 1-, 3-, 5- and 10- year periods. The second example shows an investor's estimated investment expense if he or she sells (redeems) shares at the end of the 1-, 3-, 5- or 10- year periods.

557 Item 3 of Form N-1A.

558 Summary Prospectus Adopting Release, *supra* footnote 10, at Section III.A.3.d.

fund.[559] The fee summary would be included in the summary section of the statutory prospectus (or, for funds that rely on rule 498, the summary prospectus), which funds provide investors at their initial purchase. The full fee table would be included in the statutory prospectus for those who want the additional level of detail. This is a layered disclosure approach designed to provide investors with concise, key information relating to the fund in the summary fee disclosure, with access to more detailed information elsewhere.[560] The information in the fee summary would incorporate a subset of the information that appears in the fee table, and the fees that appear in the fee summary would be the same as any corresponding fees in the fee table.

We are proposing that the fee summary begin with a narrative statement that the fee summary shows amounts the investor could pay to buy, hold, and sell shares of the fund and that these costs reduce the value of the investment. The narrative statement also would state that the investor may pay other fees, such as brokerage commissions and other fees to financial intermediaries. This would occur, for example, in the case of ETFs or "clean shares."[561] The narrative must state that these charges are not reflected in the fee summary and

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559 Proposed Item 3 of Form N-1A; *see also* 2009 Summary Prospectus Adopting Release, *supra* footnote 10, at 41-42 (commenters suggest an abbreviated fee presentation and the Commission stated, "this idea deserves further consideration, and we will consider it for possible future rulemaking").

560 The statutory prospectus, which would include the full fee table, would be available online if the fund relies on rule 498 and delivers a stand-alone summary prospectus. In cases where the fund does not rely on 498, the investor would receive the statutory prospectus on paper and could flip from the fee summary to the full fee table.

561 Clean shares are share classes offered without sales loads or any asset-based distribution or sales fees. Investors purchasing and selling clean shares may be required to pay a commission to a broker.

example. We are not proposing to require that the fee summary and example include these fees, because we understand that financial intermediaries that distribute the fund typically determine such fees, and that the amount may vary across financial intermediaries and distribution channels.

The body of the fee summary would consist of two sections: (1) a summary fee table showing the fund's transaction fees, maximum account fee (if applicable), and ongoing annual fees, and (2) a simplified version of the example. The proposed requirements for the fee summary are shown in the following chart, with current fee table line items shown on the left and corresponding items in the fee summary on the right. We discuss the proposed changes in more detail below.

**Table 5: Comparison of Current Fee Table and Proposed Fee Summary**

| Current Form N-1A Fee Table | Proposed Form N-1A Fee Summary |
|---|---|
| ***Shareholder Fees*** (fees paid directly from your investment) | ***Transaction Fees*** (fees paid each time you buy or se |
| Maximum Sales Charge (Load) Imposed on Purchases (as a percentage of offering price) _____% | Purchase Charge (as a percentage of your investmen<br>[Up to] _____%<br>(Or [up to] $___, if you invest $10,000) |
| Maximum Deferred Sales Charge (Load) (as a percentage of _____) _____% | Exit Charge (as a percentage of_____)<br>[Up to] _____%<br>(Or [up to] $___, if you invest $10,000) |
| Maximum Sales Charge (Load) Imposed on Reinvested Dividends [and other Distributions] (as a percentage of _____) _____% | Maximum Purchase Charge Imposed on Reinvested Dividends [and Other Distributions] (as a percentage _____)__<br>[Up to] _____%<br>(Or [up to] $___ , if you invest $10,000) |
| Maximum Sales Charge (as a percentage of _____) _____% | Maximum Combined Purchase and Exit Charge (as a percentage of _____) _____% |
| Redemption Fee (as a percentage of amount redeemed, if applicable) _____% | Early Exit Fee (as a percentage of amount redeemed<br>[Up to] _____%<br><br>(Or [up to] ____, if you invest $10,000) |

| | |
|---|---|
| Exchange Fee _____% | Exchange Fee<br>[Up to] _____ %<br>(Or [up to] ____, if you invest $10,000) |
| Maximum Account Fee _____% | [This item moved to its own heading, see immediate below.] |
| | ***Maximum Account Fee***<br>[Up to] _____%<br>(Or [up to] ____, if you invest $10,000) |
| ***Annual Fund Operating Expenses*** (expenses that you pay each year as a percentage of the value of your investment) | ***Ongoing Annual Fees*** (estimated expenses you pay each year as a percentage of the value of your investment) |
| Management Fees _____% | Ongoing Annual Fees _____ % |
| Distribution [and/or Service] (12b-1) Fees _____% | (Or $___, if you invest $10,000) |
| Other Expenses _____%<br>_____ _____%<br>_____ _____%<br>_____ _____% | Ongoing Annual Fees with Temporary Discount _____%<br>(Or $___, if you invest $10,000)<br>*Discount expected to end on [date]. |
| Acquired Fund Fees and Expenses _____% | [Funds that invest 10% or less of their total assets in acquired funds may omit AFFE from the Ongoing Annual Expenses and instead disclose this amount in footnote.] |
| Total Annual Fund Operating Expenses _____% | |
| ***Example***<br><br>This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. | ***Example***<br><br>This example may help you understand the costs of investing in the Fund. The example assumes that: (1) you invest $10,000 in the Fund; (2) your investment has a 5% return each year; and (3) the Fund's operat expenses are based on the table above. |
| 1 year 3 years 5 years 10 years<br>Although your actual costs may be higher or lower, based on these assumptions your costs would be: $___ $___ $___ $___ | 1 year 10 ye<br>Although your actual costs may be higher or lower, based on these assumptions, your costs would be: $___ $___ |

| | 1 year | 3 years | 5 years | 10 years | | 1 year | 10 ye |
|---|---|---|---|---|---|---|---|
| You would pay the following expenses if you did not redeem your shares: | $___ | $___ | $___ | $___ | If you sold your shares at the end of the relevant period, your costs would be: | $___ | $___ |

We seek comment on the proposed new fee summary, and specifically on the following issues:

213. Is the proposed new fee summary appropriate? If so, is it also appropriate for the current full fee table to appear in the fund's prospectus outside the summary section of the prospectus (or, for funds that rely on rule 498, outside of the fund's summary prospectus)? Is this "layered" format appropriate for fee disclosure?

c. Proposed Summary Fee Table

We propose to require a simplified fee summary in the summary section of the prospectus that is designed to improve investor understanding of fees and expenses. The proposed summary fee table would change the current fee table heading "Shareholder Fees" to "Transaction Fees," which we believe is a more plain-English term to describe fees paid each time an investor buys or sells shares of the fund. The line items under the heading "Transaction Fees" would generally encompass the same types of fees that currently appear as line items under the "Shareholder Fees" heading. However, we propose to re-title the line items with more plain-English descriptions, to increase investor comprehension. The proposed line items under the heading "Transaction Fees" that are parallel to line items currently appearing under the heading "Shareholder Fees" include:

- Any "Purchase Charge" to purchase shares, and any "Exit Charge" to sell shares;[562]
- The "Maximum Purchase Charge Imposed on Reinvested Dividends [and Other Distributions]";[563]
- Any "Early Exit Fee," which would show the redemption fee charged for exiting the fund early (and is distinguished from sales charges, which are covered under the "Exit Charge" line item);[564]
- Any "Exchange Fee," which is a charge that may be imposed on an investor who wishes to move assets from one fund in a fund group to another.[565]

The one line item that currently appears under the heading "Shareholder Fees" that would not appear under the proposed "Transaction Fees" heading is the "Maximum Account Fee." This fee is not a transaction fee, so we are proposing to include it as its own separate heading in the summary fee table.[566]

The fee summary is designed to be a focused presentation of transaction costs and, consequently, we are proposing to instruct funds that any transaction fee equaling $0 should not be included in the summary fee table (and the applicable line item that would appear in

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562 These line items are currently titled "Maximum Sales Charge (Load) Imposed on Purchases" and "Maximum Deferred Sales Charge (Load)," respectively. *See* Item 3 of Form N-1A; *see also supra* Table 5.

563 This line item is currently titled "Maximum Sales Charge (Load) Imposed on Reinvested Dividends [and Other Distributions]." *See* Item 3 of Form N-1A; *see also supra* Table 5.

564 This line item is currently titled "Redemption Fee." *See* Item 3 of Form N-1A; *see also supra* Table 5.

565 This line item title is the same as the line item title that currently appears in Form N-1A under the heading "Shareholder Fees." *See* Item 3 of Form N-1A; *see also supra* Table 5.

566 Proposed Instruction 3 to Item 3 of Form N-1A; *see also supra* Table 5.

Form N-1A should be omitted from the summary fee table).[567] We understand that certain of these fees are not common in practice (*e.g.*, account fees, and increasingly, exit charges). Therefore, even though there are a number of line items that would appear under "Transaction Fees" in Form N-1A, we do not expect that most funds would have to include all of these line items in their fee disclosure. As a result, we do not anticipate that the proposed amendments to the form would detract from the focused nature of the fee summary. While we are proposing to consolidate the line items that currently appear under "Annual Fund Operating Expenses," as we discuss in more detail below, we are not similarly proposing to consolidate the corresponding line items that would appear under "Transaction Fees." The imposition of transaction fees depends on whether an investor buys or sells shares of a fund, and will therefore be different for each investor. Accordingly, consolidation of transaction fees would be confusing to an investor who would be unable to determine whether and when he or she would bear those fees.

For each of the line items under the "Transaction Fees" heading, and the "Maximum Account Fee," a fund would have to indicate the maximum amount that the fee could be (and state that the fee is "up to" the stated amount), if the fund offers sales charge discounts.[568] This presentation would indicate to the reader that the actual sales charge may in fact be lower than the maximum fee disclosed in the fee summary.

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567 Proposed Instruction 2 to Item 3 of Form N-1A. However, a multiclass fund that shows a charge and line item because one class imposes a charge may show 0 as the charge for other classes. *Id.*

568 Proposed Instruction 2 to Item 3 of Form N-1A.

The proposed fee summary would change the current fee table heading "Annual Fund Operating Expenses" to "Ongoing Annual Fees." This new heading is designed to convey, in plain English, that there are charges that an investor will have to pay each year. The "Ongoing Annual Fees" entry in the proposed summary fee table would consist of one line item showing the total amount that the investor would pay annually. Rather than an itemized list of Ongoing Annual Fees, this proposed fee presentation would show a total, "bottom line" figure that investors can expect to pay. This is a figure that investors could compare across funds in evaluating the ongoing annual fees associated with each fund.

The proposed summary fee table would, like the current prospectus fee presentation, address expense reimbursements and fee waiver arrangements. If the fund's full fee table in the statutory prospectus were to show an expense reimbursement or fee waiver arrangement (a "discount"), our proposal would permit an additional line item in the proposed summary fee table: "Ongoing Annual Fees with Temporary Discount."[569] This line item would reflect the amount of ongoing annual fees after any discount, which would more precisely reflect the fees that the investor will pay while the discount is in place.[570] This line item would appear after the "Ongoing Annual Fees" line item that does not reflect the discount, because we believe

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569 Proposed Instruction 4(b) to Item 3 of Form N-1A.

570 *See* current Instruction 3(e) to Item 3 of Form N-1A. Based on XBRL data filed on the EDGAR system as of June 1, 2019, of the more than 32,000 fund classes, approximately 53% described a fee waiver in the prospectus fee table.

The proposed line item would be permitted, not required, just as the current provision on expense reimbursements or fee waivers is also permissive. *Id*. We believe that, as a practical matter, a fund would likely choose to disclose the ongoing annual fees with the expense reimbursements or fee waivers because that would be a lower amount than ongoing annual fees without those reductions.

that the "gross" figure should be the most prominent, given that expense reimbursement and fee waivers are generally only temporary. Further, we are proposing that this optional Ongoing Annual Fees line item be accompanied by a footnote stating the expected termination date of the discount.[571]

We propose to require that each line item in the summary fee table show the cost investors could pay in dollars assuming a $10,000 investment, as well as the same charge shown as a percentage of assets.[572] Research suggests that investors may better appreciate the impact of costs when expressed as a dollar amount rather than a percentage of assets.[573] While this proposed addition would add some marginal length to the fee summary, we do not believe the length is inappropriate when balanced against the need to communicate the impact of costs to investors effectively. Also, we believe that the proposed tabular presentation of the fee summary is an efficient way to present fee information, including the new dollar-based presentation, in a manner that investors can easily read and understand.[574]

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571 Instruction 4(b) to Item 3 of proposed Form N-1A; *see also supra* Table 5.

572 Proposed Instruction 2, proposed Instruction 3, and proposed Instruction 4(c) to Item 3 of Form N-1A.

573 *Cf.* Numerical Information Format and Investment Decisions: Implications for the Disposition Effect and the Status Quo Bias, Rubaltelli et al., The Journal of Behavioral Finance, 2005, Vol. 6, No. 1, 19–26); *see also* Government Accountability Office, Statement of Richard J. Hillman, Director, Financial Markets and Community Investment before the U.S. Senate Committee on Governmental Affairs Subcommittee on Financial Management, the Budget and International Security, "Mutual Funds: Additional Disclosures Could Increase Transparency of Fees and Other Practices," (Jan. 27, 2004), *available* at http://www.gao.gov/assets/120/110547.pdf; Justine S. Hastings & Lydia Tejeda-Ashton, Financial Literacy, Information, and Demand Elasticity: Survey and Experimental Evidence from Mexico, NBER Working Paper 14538 (Dec. 2008), *available at* https://www.nber.org/papers/w14538 (finding that providing fee disclosures to Mexican investors in peso rather than percentage terms caused financially inexperienced investors to focus on fees).

574 *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27 (requiring a

Under the proposal, the "Ongoing Annual Fee" amount generally would be the same figure that funds currently report as "Total Annual Fund Operating Expenses" (*i.e.*, the fund's expense ratio).[575] In addition to direct and fixed fees, such as management fees, this expense ratio figure currently includes certain performance expenses that are not operating costs reflected in a fund's statement of operations but rather are indirect expenses paid by the fund to generate performance and excludes other such expenses. Performance expenses currently reflected in a fund's expense ratio include AFFE, interest expense, and dividends paid on short sales (although AFFE is not included in the fund's statement of operations).[576] However, the expense ratio does not currently reflect all or even most of the material performance expenses that similarly affect the fund's performance. These include costs associated with the fund's securities lending activities and transaction costs. For example, funds that lend securities generate income from securities lending that is included in the fund's performance. To generate that income, the fund incurs certain expenses, such as fees to the securities lending agent. Further, it is our understanding that the income generated is used to offset the fund's operating costs.[577] Transaction costs are the costs a fund incurs when it buys or sells

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tabular presentation of fees in variable contract summary prospectuses).

575 The "Ongoing Annual Fee" amount may differ from the currently reported "Total Annual Fund Operating Expenses" figure to the extent that a fund discloses AFFE in a footnote instead of reflecting that amount in the "Ongoing Annual Fee" figure under the proposed amendments. *See infra* Section II.H.1.g.

576 *See infra* Section II.H.1.g (proposing certain amendments to the scope of AFFE disclosure).

577 Funds typically engage a securities lending agent to administer their securities lending programs and compensate these agents with a share of the revenue generated by the lending program. Some funds use securities lending agents that are affiliated with the fund's investment adviser and so this additional revenue may be used to defray some of the fund's direct costs, such as advisory fees. The portion of securities lending revenue paid to the securities lending agent is not reflected in the fund's fee table. Thus, using this revenue to

portfolio investments. These costs include commissions, spread costs, market impact costs, and opportunity costs.[578]

Although a fund's fee table does not reflect securities lending costs and fund transaction costs, a fund's prospectus and SAI include, in locations other than the fee table, other information about these costs. For example, a fund's total return in the prospectus performance presentation reflects these costs.[579] However, an investor reviewing a fund's total return cannot identify whether the fund's securities lending or trading activity had a positive or negative effect on the fund's returns, or the overall costs associated with these activities. In fact, an investor would likewise not be able to ascertain the effect of the performance expenses currently included on the fund's return. However, beyond inclusion in the total return, funds also provide certain information about securities lending income, expenses, and services in their SAIs.[580] Funds also report information about their securities lending activities

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reduce other costs of investing in the fund (where that reduction is reflected in the fee table) may make the fund appear to be less expensive.

578 Commissions generally refer to charges that a broker collects to act as agent for a customer when executing and clearing trades. Spread costs are incurred indirectly when a fund buys a security from a dealer at the "asked" price (which is above current value) or sells a security to a dealer at the "bid" price (which is below current value). Market impact costs are incurred when the price of a security changes as a result of the effort to purchase or sell the security. Opportunity cost is the cost of missed trades. For more information about these categories of costs, *see* Concept Release: Request for Comments on Measures to Improve Disclosure of Mutual Fund Transaction Costs, Investment Company Act Release No. 26313 (Dec. 18, 2003) [68 FR 74820 (Dec. 24, 2003)] ("Transaction Costs Concept Release"), at Section II.

579 Transaction costs are included in a fund's total return because, under generally accepted accounting principles, they are either included as part of the cost basis of securities purchased or subtracted from the net proceeds of securities sold and ultimately are reflected as changes in the realized and unrealized gain or loss on portfolio securities in the fund's financial statements.

580 *See* Item 19(i)(1) of Form N-1A. Among other things, this includes the dollar amount of fees or compensation paid by the fund for securities lending activities and related services, including fees paid to the securities lending agent from a revenue split, other fees that are not

on Form N-CEN.[581] On transaction costs, prospectuses provide a fund's portfolio turnover rate, and SAIs include the amount of brokerage commissions the fund paid.[582] This information can help investors understand how fund transaction costs may vary among different funds.[583]

While we require funds to provide some information related to their securities lending costs and transaction costs, we understand that there could be benefits in providing investors a more complete or focused disclosure in one location regarding performance expenses. Among other benefits, this could include more transparent cost information that would allow investors to better compare funds. At the same time, there are complexities associated with requiring funds to disclose this information in their prospectus fee tables and in the proposed summary fee table. For instance, what is the best way to include the information in a manner that

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included in the revenue split (such as fees paid for cash collateral management services, administrative fees, and indemnification fees), and rebates paid to the borrower.

581 *See* Item C.6 of Form N-CEN (requiring a fund to report certain information about its securities lending activity, including: (1) whether it is authorized to engage in securities lending transactions; (2) whether it lent its securities during the relevant period; (3) certain information about its securities lending agent(s); (4) certain information about any cash collateral manager (who is not also the fund's securities lending agent); (5) types of payments made to securities lending agents or cash collateral managers; (6) the monthly average of the value of the portfolio securities on loan during the relevant period; and (7) net income from securities lending activity).

582 *See* Item 3 of current Form N-1A; Items 3 and 8A of proposed Form N-1A; and Item 21(a) of Form N-1A. Money market funds are not required to provide annual portfolio turnover rates because many of their investments would already be excluded from the portfolio turnover rate calculation (which excludes securities whose maturities or expiration dates at the time of acquisition were one year or less). *See, e.g.*, Instruction 4(d) to Item 13 of Form N-1A (providing calculation instructions for portfolio turnover rates); *see also* MDFP Adopting Release, *supra* footnote 180, at n.3.

583 *See, e.g.*, Transaction Costs Concept Release, *supra* footnote 578, at paragraph accompanying n.4.

reflects the corresponding income (or loss) to the fund from the particular activity? Moreover, there are some challenges associated with measuring certain performance expenses, such as transaction costs, including the potential for inconsistent or inaccurate measurements that may confuse or mislead investors.[584] While we are not, at this time, proposing to modify fund prospectus disclosure to address these performance expenses, we are soliciting input on whether and how to include these performance expenses in the fund's prospectus. We note, in particular, our modifications of the shareholder report expense presentation that would take a new approach to the presentation of fees and expenses designed to reflect both the direct, fixed fees as well as the material performance expenses by requiring disclosure of the fund's net performance together with qualitative disclosure on the material expenses to performance.[585]

We seek comment on the proposed summary fee table and on the scope of costs and performance expenses it would reflect, and specifically on the following issues:

214. Is it helpful to investors to require simplified, "bottom line" disclosure of the ongoing annual fees they will pay with their fund investment in the fee summary, and more-detailed disclosure about the components of the ongoing annual fees in the full fee table? Is it investor-friendly to provide for one total figure for ongoing annual fees and not permit a fund to include subcategories of such expenses in the fee summary? Should we also consolidate

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584 *See supra* footnote 157 (discussing commenters' views on the challenges associated with transaction cost disclosure in certain jurisdictions).

585 *See supra* Section II.B.2.b.

any or all of the transaction fees reported in the proposed fee summary? If so, how should Form N-1A instruct funds to consolidate this information?

215. Is it appropriate, as proposed, that the summary fee table show the fund's transaction fees, maximum account fee, and ongoing annual fees? Are there any other general types of fees and charges that the summary fee table should include? If so, which ones?

216. Is it appropriate not to require in the proposed summary or full fee table or example disclosure of brokerage commissions and other fees to financial intermediaries? Do commenters agree with our approach not to require such fees because financial intermediaries that distribute the fund typically determine such fees, and the amount may vary among financial intermediaries and distribution channels? Are there reasons such fees should be disclosed?

217. Some investors commenting on the Fund Investor Experience RFC expressed interest in a single, "all-in" presentation of investment costs (or in personalized fee disclosure more generally) that would reflect both fund and intermediary costs.[586] Other commenters indicated that preparing combined or personalized expense information could present some challenges, including the potential need for coordination and information-sharing between funds and intermediaries.[587] Should funds provide more comprehensive fee and expense

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586 *See, e.g.*, Waranowski Comment Letter: Wilhelm Comment Letter; Fowler Comment Letter; Balke Comment Letter; Hague Comment Letter; Woods Comment Letter; Lee Comment Letter. Some commenters did not want to receive more personalized information, including personalized fee information, with a few of these commenters expressing particular concern about sharing personal information. *See, e.g.*, Grano Comment Letter; Wilhelm Comment Letter.

587 *See* ICI Comment Letter I.

presentations that account for both fund and intermediary costs? If so, how? For example, are there ways we could better integrate information an investor receives about fund costs in fund prospectuses and information an investor receives about intermediary costs in a Form CRS relationship summary?[588] If so, how? Should any integrated presentation of costs provide illustrative, standardized information about fund and intermediary costs, or should it provide investor-specific information? As another example, if a fund is only or primarily offered through one or more known wrap fee programs, should fund disclosure materials recognize the wrap fee program costs?[589] Would this approach present challenges to funds or intermediaries? If so, what are those challenges, and how could we address them? If we modify fee and expense presentations to account for both fund and intermediary costs, should we also require performance information that recognizes both sets of costs? Would the proposed presentation of fees in terms of dollar amounts, in addition to the currently required percentage amounts, be useful to investors? Should an investment amount other than $10,000 be used? If so, what would be the appropriate amount?

218. Is the narrative statement that we are proposing to precede the fee summary useful and appropriate? Is it helpful to note that fees reduce the value of an investment? Is it helpful to include the statement, as proposed, that investors may pay other fees, such as

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588 *See, e.g.*, Item 3.A of Form CRS (requiring a relationship summary to include summary information about principal fees and costs, a description of other fees and costs, and specific references to more detailed information about fees and costs); Form CRS Adopting Release, *supra* footnote 27.

589 A wrap fee program generally involves an investment account where an investor is charged a single, bundled, or "wrap" fee for investment advice, brokerage services, administrative expenses, and other fees and expenses.

brokerage commissions and other fees to financial intermediaries, which are not reflected in the summary fee table or the expense example? What changes, if any, should the Commission make to the proposed narrative statement?

219. As proposed, the "Transaction Fees" heading in the summary fee table would include specified line items: Purchase Charge, Exit Charge, Maximum Purchase Charge Imposed on Reinvested Dividends, Early Exit Fee, and Exchange Fee. Should the "Transaction Fees" heading include all of these line items, or should the Commission limit this fee presentation in any way (*e.g.*, by only permitting a fund to include the purchase charge and exit fee in the summary fee table)? Would the proposed inclusion of all of these line items detract from a focused presentation of transaction costs? Do commenters agree with our expectation that most funds would not include all of these line items, given the proposed instruction that any transaction fee equaling $0 should not be included?

220. Is it appropriate to move the current "Maximum Account Fee" line item to its own section in the summary fee table in light of the proposed change of the headings in the fee table from "Shareholder Fees" to "Transaction Fees"?

221. Is it appropriate to require a fund to indicate the highest amount that the fee could be (and to state in its disclosure, as proposed, that a particular fee is "up to" that amount if the fund offers fee discounts)? Is this an effective means of indicating that charges may be lower than the maximum fee that the fund discloses in the summary?

222. Is the proposed optional "Ongoing Annual Fees with Temporary Discount" line item appropriate? If so, is it also appropriate to require a fund to disclose the gross figure before any such waivers, as proposed? Should these two line items appear adjacent to one another in the summary fee table, as proposed?

223. Should we modify the types of fund costs that funds currently must include in their expense ratios, which funds would disclose in the proposed summary fee table and the full fee table? For example, should the reported expense ratio include any performance expenses—such as securities lending costs or fund transaction costs—that it does not currently include? If so, how should funds measure each newly disclosed category of performance expenses? For example, should securities lending costs be disclosed as a percentage of net assets in the prospectus, based on current disclosure of these costs in the SAI? Alternatively, should performance expenses that are currently included in the expense ratio, such as interest expense or dividends paid on short sales, not be included as a component of the expense ratio?[590] Should the presentation distinguish between direct fees and expenses (*i.e.*, operating expenses) versus performance expenses associated with portfolio management activities that detract from fund performance (such as interest expenses, dividends paid on short sales, AFFE, securities lending costs, and fund transaction costs) and, if so, how?

224. Should a fund's prospectus include additional disclosure about performance expenses, in lieu of including these expenses in the fund's expense ratio? If so, should the

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590 *See, e.g.*, ICI Comment Letter I; Comment Letter of Teachers Insurance and Annuity Association of America (Oct. 31, 2018). These two commenters suggested that funds should no longer be required to disclose interest expense and dividends paid on short sales in prospectus fee tables to: (1) enhance consistency with the approach to other investing costs, such as transaction costs; (2) provide a more stable measure of ongoing operating expenses; and (3) address concerns that fee table disclosure may focus investors on these costs without explaining that the strategy leading to these costs may also lead to higher net returns. These commenters suggested that disclosure about these costs should appear in fund financial statements and the SAI. AFFE is another type of performance expense currently included in the expense ratio. We discuss and request comment on AFFE disclosure more specifically below. *See infra* Section II.H.1.g.

disclosure be quantitative or qualitative? If quantitative, how should funds measure each newly disclosed category of fund cost?[591] If qualitative, how should funds concisely describe the fee or expense? Where should the additional information appear? For instance, should funds disclose these costs in a footnote accompanying the fee table and fee summary? As one example, should a fund that qualitatively or quantitatively discloses these costs, if material to the fund, in a footnote to its shareholder report expense presentation under the proposal also qualitatively or quantitatively disclose these costs in a footnote to its prospectus fee table and fee summary?[592] Why or why not? Alternatively, should funds disclose these costs in connection with the prospectus's presentation of fund performance under Item 4 of Form N-1A given they can detract from performance? If so, should they, for example, be required to disclose the top three—or some other number—types of costs that detracted from fund performance?

225. If funds were to provide additional disclosure of securities lending costs, should they also be permitted and/or required to explain that these costs may improve a fund's performance or, in certain cases, permit a fund to reduce its fees? If so, how could this information best be presented to help investors understand these potential considerations without adding unnecessary length or complexity to the prospectus?

226. If funds were to provide additional disclosure about securities lending costs or fund transaction costs in prospectuses, would this disclosure complement existing disclosure

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591 Unlike a fund's direct costs, many performance expenses are not reported in a fund's financial statements and therefore are not included in the fund's expense ratio.

592 *See supra* paragraph accompanying footnote 164 (discussing the proposed shareholder report requirement).

requirements in the prospectus, SAI, and Form N-CEN? Or should we remove or modify those existing disclosure requirements?

227. How would modifying prospectus disclosure to reflect securities lending costs, fund transaction costs, or other performance expenses of a fund's portfolio management activities affect investors? What disclosure modifications would help investors better understand these costs, and conversely, are there any disclosure modifications that would contribute to investor confusion or potential misinterpretation? For example, how would reflecting additional costs in the proposed summary fee table or other quantitative presentation affect investment decisions? If we were to modify the fee presentation in a way that might change a fund's fees, how should we inform investors of the changed requirements or transition to the new requirements in a way that minimizes investor confusion? For example, if a fund's fee under current requirements is 0.50%, but under any new requirements that same fund, operating in the same manner, might have a fee of 0.75%. How can we help investors understand this change?

228. Do investors need more information about how a fund's adviser and its affiliates may receive compensation from a fund, either to better understand fund costs or to understand potential conflicts of interest? For example, some funds use securities lending agents that are affiliated with the fund's investment adviser, which can result in the adviser and its affiliates receiving compensation from a fund in a way that the prospectus fee table does not reflect.[593] As another example, some funds use affiliated broker-dealers when

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[593] *See supra* footnote 577.

transacting in portfolio investments, which can result in the costs associated with these transactions accruing to affiliated persons of the fund. However, affiliated parties also could be less expensive or provide better services than those provided by unaffiliated parties. If investors would benefit from additional information about compensation that the fund's adviser and its affiliates may receive from the fund, where should this disclosure appear? Should it be quantitative or qualitative? For instance, should funds disclose any revenue paid to the fund's adviser or its affiliates that the fee table does not reflect (*e.g.*, outside of the management fee), as a percent of fund assets or a percent of the fund's total expenses? If so, where should this disclosure appear (*e.g.*, in the prospectus fee table, a discussion accompanying the table, or elsewhere)? Should a fund be permitted or required to disclose why it selected an affiliated service provider instead of an unaffiliated third party?

229. Do investors need additional information to help them compare the fees and expenses of different classes of a fund, or other aspects of a fund investment that differ between classes (*e.g.*, fund performance)? For instance, do investors need more information to help them determine whether they are eligible to invest in a particular class or to compare fees, performance, or other aspects of different classes? If so, how should funds provide this information? How could we help investors better understand class eligibility, particularly when a prospectus (or shareholder report) could only cover a subset of a fund's classes?

230. Are there ways we could reduce complexities associated with funds offering multiple share classes with different fee structures? For example, should funds more clearly present their classes based on investor eligibility? What are the challenges of such an approach?

231. Are there ways we could facilitate an investor's ability to calculate costs and compare different funds? For instance, are there steps we could take to improve investors' familiarity with, or access to, interactive calculators or fund comparison tools?[594]

d. Proposed Simplified Example

In addition, we propose to simplify the example in the fee summary. We are proposing to modify the current narrative that precedes the example slightly, to enhance clarity and brevity.[595] We are also proposing to decrease the number of time periods that the expense example must show. While the current example shows expenses over 1, 3, 5, and 10-year periods, the proposed example would show costs over 1 year and 10 years (or 1 year and 3 years in the case of a new fund).[596] We believe that having fewer time periods would help to simplify the example. At the same time, we believe that requiring a fund to present expenses over 1 and 10 years would provide meaningful disclosure regarding the effect of fees in both

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594 For example, FINRA's Fund Analyzer tool can help investors compare the costs of different fund investments. This tool is available at https://tools.finra.org/fund_analyzer/.

595 The current narrative states, "This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds." The proposed narrative states, more simply, "This example may help you understand the costs of investing in the Fund." *See supra* Table 5.

The assumptions in the proposed example relating to the amount invested in the fund, investment return, and the fund's operating expenses are substantively identical to those in the current form, with slight changes designed to state them more simply. In addition, the current form shows, first, expenses if the investor redeems shares at the end of the period, and, second, expenses if the investor does not redeem. The proposal reverses this order because we believe that most investors treat these as long-term investments and so are less likely to redeem their shares.

596 Instruction 5(a) to Item 3 of proposed Form N-1A; *see also* Item 3 of Form N-1A and Item 8A of proposed Form N-1A; *supra* Table 5.

the short-term and long-term.[597] We understand that investors typically hold mutual fund shares for a relatively long term. For example, one commenter estimated that two-thirds of fund investors have owned their funds for at least 10 years, and 80% of fund investors have held their fund investments for 5 years or more.[598] The 10-year time frame is addressed to the long-term nature of many fund investments. Investors wishing information for the interim 3 and 5 year periods could find that information in the full fee table.

We considered proposing to incorporate elements of the proposed shareholder report expense presentation into the prospectus in lieu of simplifying the current fee example. As discussed above, the proposed shareholder report expense presentation would disclose costs directly deducted from the fund's assets alongside the fund's return, which in turn would reflect direct costs as well as any performance expenses associated with the fund's portfolio management activities.[599] While the shareholder report expense presentation would not itemize these performance expenses, funds would be required to discuss them qualitatively if material to the fund, in a footnote to the expense presentation.[600] In addition to helping investors understand that a fund has performance expenses that are in addition to a fund's direct costs, the proposed shareholder report presentation has other benefits. For example, the

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597 We are not proposing similar changes for the performance presentation (average annual returns), *see* Items 4(b)(2) and 27(b)(7)(ii) of Form N-1A; Item 27A(d)(2) of proposed Form N-1A) which, in addition, presents information over an interim period (five years), because unlike the expense example where the fees reflected are consistent over the period shown, performance information changes from year-to-year, and we believe it is important to illustrate this variability of returns over an interim period.

598 *See* Broadridge Comment Letter II.

599 *See supra* Section II.B.2.b.

600 *See supra* footnote 164 and accompanying text.

shareholder report presents a fund's fees alongside its performance to help shareholders understand how costs and performance each affect the value of his or her investment.

However, unlike the shareholder report presentation, the prospectus fee table, fee summary, and example reflect hypothetical future expenses (*i.e.*, forward-looking expenses). The prospectus fee presentation—while also based on a fund's financial statements—reflects sales loads, the expenses associated with the fund's investments in other funds, material changes to fund expenses, estimated expenses for new funds, and only certain fee waiver arrangements. These additional fee elements make it difficult to import a presentation similar to the backward-looking shareholder report expense presentation into the prospectus. Also, a shareholder report-type approach based on backward-looking information would be difficult to implement for new funds with short or no performance history. Moreover, because the proposed shareholder report presentation shows expenses for the past fiscal year only, it would not illustrate the long-term effect of fund fees for investors. Given these considerations, we are not proposing to incorporate elements of the proposed shareholder report presentation into the prospectus.

We seek comment on the proposed simplified example, and specifically on the following issues:

232. Is the proposed simplified example presentation appropriate, and would it be useful to investors? Would restricting the example to including expense information for 1- and 10-year periods accomplish the goal of streamlining the fee summary, while providing meaningful disclosure? Should the simplified example include different time periods, and if so, which ones? Is the proposal to require new funds to present expense information for 1- and 3-year periods appropriate?

233. Instead of providing an expense example in the prospectus that shows estimated costs over set intervals of time based on an assumed 5% annual return, should funds base their expense example on the fund's actual historic performance? For example, should the expense example be based on the fund's gross performance over the past 1, 5 and 10 years? If so, how should funds that do not have a long-enough performance history be treated? Would investors benefit from a presentation based on actual rather than hypothetical investment returns? If not, why not?

234. If we were to require using an assumed annual return, as is the case today, would the assumed 5% annual return continue to be appropriate? If not, what is a more appropriate assumption and why? Should the assumption be different for different fund types? For example, should a money market fund have a lower assumed investment return than an equity fund? What are the benefits and drawbacks of using a higher or lower assumed annual return?

235. Instead of the current fee table example and the proposed simplified example in the prospectus, should the examples more closely resemble the expense presentation in the proposed shareholder report? If so, how should the proposed annual report presentation be modified to show the impact of transaction fees (such as purchase and exit charges)? Should the presentation be based only on costs that are directly deducted from fund assets, or all of the fees reflected in the fee table (which may include AFFE)? How should the longer-term impact of fees be reflected? For example, certain fund share classes may be intended for investors with a short time horizon and have higher ongoing annual expenses while other classes may be intended for longer-term investors and have higher up-front charges but over the long run may be less expensive. How should the proposed annual report presentation be

modified for use in the prospectus to help distinguish the differences in share classes over both the short and long term? How should new funds that do not have any performance history present an example?

236. Do the different presentations of fund fees and expenses in prospectuses and shareholder reports currently contribute to investor confusion? Would our proposed amendments to fee and expense presentations in both documents increase, reduce, or have minimal effect on the potential for investor confusion? How could we modify the presentations to reduce the potential for investor confusion? For instance, one difference is that the prospectus fee table may reflect the costs associated with investments in other funds (*i.e.*, AFFE) while the annual report does not directly reflect these expenses. For example, a fund of funds may show an expense ratio of 0.20% in its annual report but reflect expenses of 1.00% in its prospectus fee table because the prospectus presentation also reflects the costs associated with investment in other funds. How can we address these differences to minimize the potential for investor confusion?

e. Proposed Fee Summary Formatting Requirements

We are proposing that a fund generally would not be permitted to include footnotes and other extraneous disclosure in the fee summary. We believe this is consistent with the goal of the proposed simplified fee table, which is to streamline the presentation of fees and to provide an easier-to-understand presentation with fewer data points and a clearer picture of the total costs of investing in the fund. We are proposing an exception if omitting a footnote would cause the disclosure to be materially misleading such that the fees borne by investors

would be materially higher than presented in the fee summary.[601] For example, if a fund charges a "fulcrum fee," by which the advisory fee varies depending on the performance of the fund, the fee in the current year could be greater than the fee reflected in the fee summary.

We seek comment on the proposed fee summary formatting requirements, and specifically on the following issues:

237. Is it appropriate to limit the use of footnotes in the fee summary, as proposed? Are there circumstances where footnotes would be useful to investors that the proposed instruction would not permit?

f. New, Simplified Fee Terminology

In addition to proposing to create the fee summary, we are also proposing changes in some terminology that funds would use to describe fees in the prospectus. These changes are designed to enhance the presentation of fees and investors' understanding of these fees. The changes we are proposing in the terminology used in the fee table would flow through to the fee summary, as applicable. Plain language plays an important role in investors' ability to use and understand fund disclosures.[602] The terminology changes we propose are designed to be more consistent with everyday language and to effectively communicate the nature of the fees the fund charges. Unless otherwise discussed in this release, although we are proposing to substitute some terms that would appear in Form N-1A and funds' prospectuses, we intend the

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601 *See* proposed Instruction 1(c) to Item 3 of Form N-1A.

602 *See* Fund Investor Experience RFC, *supra* footnote 8, at Section II.C.1.

meaning of these terms to remain unchanged. Below is a chart showing captions and terms that the current fee table references, along with their replacements.[603]

**Table 6**

| Current Caption or Term, and Form N-1A Location | Proposed Caption or Term, and Form N-1A Location |
|---|---|
| Shareholder Fees<br>(Item 3) | Transaction Fees<br>(Items 3 and 8A) |
| Annual Fund Operating Expenses<br>(Item 3) | Ongoing Annual Fees<br>(Items 3 and 8A) |
| Maximum Sales Charge (Load) Imposed on Purchases<br>(Item 3) | Purchase Charge<br>(Items 3 and 8A) |
| Maximum Deferred Sales Charge (Load)<br>(Item 3) | Exit Charge<br>(Items 3 and 8A) |
| Redemption Fee<br>(Item 3) | Early Exit Fee (Items 3 and 8A) |
| Total Annual Fund Operating Expenses<br>(Item 3) | Ongoing Annual Fees<br>(Items 3 and 8A) |
| Distribution [and/or Service] (12b-1) Fees<br>(Item 3) | Selling Fees<br>(Item 8A) |
| Fee Waiver [and/or Expense Reimbursement]<br>(Item 3) | Temporary Discount<br>(Items 3 and 8A) |
| Total Annual Fund Operating Expenses After Fee Waiver [and/or Expense Reimbursement]<br>(Item 3) | [Total] Ongoing Annual Fees with Temporary Discount<br>(Items 3 and 8A) |

We seek comment on the proposed fee terminology, and specifically on the following issues:

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603 This chart shows proposed captions or terms for the fee tables in Items 3 and 8A of proposed Form N-1A. These changes in terminology flow through to other sections of the proposed form. *See* Items 4, 12, 13, 17, 23, 26, 27A.

238. Are the proposed changes to the current terminology helpful? Are there other terms currently used in the form that could be simplified? Would our proposed changes in terminology contribute to more understandable disclosure?

g. Acquired Fund Fees and Expenses

We are also proposing to modify the current prospectus fee table requirements by refining the scope of funds that must disclose AFFE as a component of bottom-line annual fund operating expenses. Specifically, the amendments we are proposing would permit funds that invest 10% or less of their total assets in acquired funds to omit the AFFE line item in the fee table and instead disclose the amount of the fund's AFFE in a footnote to the fee table and fee summary. Funds that invest more than 10% of their total assets in acquired funds would continue to present AFFE as a line item in the prospectus fee table and include AFFE in the bottom-line expense figure, as they do today.

Currently, any fund that invests in acquired funds—which include investments in other investment companies and in private funds that would be investment companies but for sections 3(c)(1) or 3(c)(7) of the Investment Company Act—must disclose the amount of fees and expenses the fund indirectly incurs from these investments in the fund's fee table.[604] This disclosure generally appears as a separate AFFE line item in the fee table, although a fund

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[604] The AFFE amount is composed of the following types of fees and expenses attributable to the fund's investment in acquired funds over the relevant period: each acquired fund's total annual operating expense ratio, any transaction fees the fund paid to acquire or dispose of shares in any acquired fund (*e.g.*, sales loads or redemption fees), and incentive allocations where the fund allocates capital to the adviser of the acquired fund (or its affiliate) based on a percentage of the fund's income, capital gains, and/or appreciation in the acquired fund. Form N-1A provides calculation instructions for determining the AFFE amount. *See* Instruction 3(f) to Item 3 of current Form N-1A.

may reflect AFFE in the "other expenses" fee table line item (without separately identifying the AFFE amount) if AFFE does not exceed 0.01 percent, or one basis point, of the fund's average net assets.[605] As a result, regardless of the size of a fund's investments in acquired funds, AFFE currently is a component of the line items that, summed together, produce the fund's bottom-line annual fund operating expenses (which we propose to rename to "total ongoing annual fees") in its fee table. AFFE disclosure is designed to provide investors with a better understanding of the costs of investing in a fund that invests in other funds, which have their own expenses that may be as high as—or higher than—the acquiring fund's expenses.[606] As recognized above, AFFE is a performance expense that is not an operating cost reflected in a fund's statement of operations. Instead, it is an indirect expense paid by the fund to generate performance.[607]

Some commenters on the Fund Investor Experience RFC and on the Commission's 2018 proposal related to fund of funds arrangements have expressed certain concerns about current AFFE disclosure requirements.[608] For example, several commenters have suggested that fee table disclosure should focus on a fund's operating expenses and should not incorporate AFFE.[609] Some of these commenters have expressed concern that combining

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605 See id.

606 *See* Fund of Funds Investments, Investment Company Act Release No. 27399 (June 20, 2006) [71 FR 36640 (June 27, 2006)], at text accompanying n.67.

607 *See supra* Section II.H.1.c.

608 *See* Fund of Funds Arrangements, Investment Company Act Release No. 33329 (Dec. 19, 2018) [84 FR 1286 (Feb. 1, 2019)] ("Fund of Funds Proposing Release"), at nn.176-179 and accompanying text. Comments on the Fund of Funds Proposing Release cited in this release are available at https://www.sec.gov/comments/s7-27-18/s72718.htm.

609 *See, e.g.*, Comment Letter of Investment Company Institute (Apr. 30, 2019) on File No. S7-27-18; Comment Letter of PIMCO (May 1, 2019) on File No. S7-27-18; Comment Letter of

operating expenses with indirect AFFE costs may confuse investors by over-emphasizing AFFE costs and that combining expenses in this way does not align with a fund's financial statements.[610] Several commenters have also expressed particular concern about treating BDCs as acquired fund investments and have recommended excluding BDC investments from AFFE.[611] One of these commenters suggested that the Commission remove AFFE from the prospectus fee table and require funds to disclose AFFE amounts in an accompanying footnote to address these concerns.[612] On the other hand, other commenters have expressed general support for AFFE disclosure.[613] Two commenters stated that AFFE disclosure

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Invesco Ltd. (Apr. 30, 2019) on File No. S7-27-18 ("Invesco Fund of Funds Comment Letter"); Comment Letter of Chapman and Cutler LLP (May 2, 2019) on File No. S7-27-18 ("Chapman and Cutler Fund of Funds Comment Letter"); Comment Letter of SIFMA Asset Management Group (May 2, 2019) on File No. S7-27-18.

610 *See, e.g.*, Chapman and Cutler Fund of Funds Comment Letter; Invesco Fund of Funds Comment Letter.

611 *See, e.g.*, Comment Letter of Small Business Investor Alliance (Apr. 30, 2019) on File No. S7-27-18 (stating that AFFE disclosure distorts an acquiring fund's expense ratio and has disproportionately harmed BDCs because this disclosure requirement has led to funds no longer investing in BDCs and several index providers dropping BDCs from their indexes); Comment Letter of TPG Specialty Lending, Inc. (May 2, 2019) on File No. S7-27-18; Comment Letter of Coalition for Business Development (May 2, 2019) on File No. S7-27-18; Comment Letter of Alternative Credit Council (May 2, 2019) on File No. S7-27-18 (stating that AFFE disclosure overstates the costs of a fund investing in a BDC because it essentially requires double-counting of a BDC's operating expenses and that because AFFE disclosure has effectively resulted in funds no longer investing in BDCs, it has restricted the market for

provides investors with necessary information to understand the layering of fees in a fund of funds arrangement and to compare similar funds.[614]

We agree that AFFE information is valuable and can help investors to understand the layered fees and expenses associated with a fund of funds arrangement and to compare similar funds. We believe this information is particularly important when a fund substantially invests in other funds such that the fund is, in essence, managed significantly at the acquired fund level. At the same time, we are sensitive to the concern that requiring every fund to include AFFE in its fee table as a component of the fund's ongoing annual fees reduces consistency with the fund's financial statements and may in some cases magnify the presentation of AFFE by requiring fee table disclosure of this discrete category of performance expenses even though the fund does not invest significantly in acquired funds and may incur other indirect costs that are not reflected in the fee table. We understand these factors may contribute to investor confusion.

As a result of these considerations, we are proposing to permit funds that invest 10% or less of their total assets in acquired funds to omit the AFFE line item in the fee table that is a component of the fund's bottom line ongoing annual fees, and instead disclose the amount

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BDCs, limited institutional ownership of BDCs, and reduced investor choice); ICI Comment Letter I.

612 *See* Comment Letter of Dechert LLP (May 2, 2019) on File No. S7-27-18.

613 *See, e.g.*, Comment Letter of Anonymous (Dec. 28, 2018) on File No. S7-27-18; Comment Letter of Kauff Laton Miller LLP (May 13, 2019) on File No. S7-27-18 ("Kauff Laton Fund of Funds Comment Letter"); Comment Letter of Law Office of William Coudert Rand on File No. S7-27-18 (May 14, 2019) ("Rand Fund of Funds Comment Letter").

614 *See* Kauff Laton Fund of Funds Comment Letter; Rand Fund of Funds Comment Letter.

of the fund's AFFE in footnotes to the fee table and fee summary. The proposed amendments are designed to maintain the benefits of transparent AFFE disclosure for investors and to provide more consistent disclosure of information related to indirect costs. Where a fund invests in other funds to a limited extent—10% or less of its total assets (consistent with statutory limits on funds' investments in other funds)—the fees and expenses of the acquired funds may more closely resemble other indirect costs, such as transaction costs, and these types of indirect costs each would not be reflected in the prospectus fee table.[615] Specifically, the proposal would provide for more consistent treatment with other indirect costs by removing AFFE as a line item that represents a component of the bottom line ongoing annual fees figure in such a fund's fee table and fee summary, while retaining information about the amount of AFFE in footnotes accompanying the fee table and fee summary.

Conversely, under the proposal, a fund that invests more than 10% of its total assets in acquired funds would continue to be required to disclose AFFE as a line item in its prospectus fee table and would continue to reflect this amount in its bottom line ongoing annual fees. We believe it is appropriate to retain the current AFFE disclosure requirement for this category of funds because, when investing in acquired funds is a significant component of a fund's

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615 *See* section 12(d)(1)(A)(iii) of the Investment Company Act [15 U.S.C. 80a-12(d)(1)(A)(iii) (10% limit on total assets of an acquiring fund that may be invested in all acquired funds); *see also supra* paragraph accompanying footnote 577 (discussing indirect costs that the prospectus fee table does not reflect). Congress established the 10% limit in part based on a concern about the potential for excessive fees when one fund invests in another. *See* Fund of Funds Proposing Release, *supra* footnote 608, at n.14 and accompanying text. While funds may under certain circumstances invest more than 10% of their total assets in acquired funds under other statutory provisions, Commission rules, or exemptive orders, we are proposing to use the 10% figure from section 12(d)(1)(A)(iii) as a threshold for determining when a fund's investments in acquired funds is a significant component of its investment strategy such that fee table disclosure of AFFE is needed.

investment strategy, AFFE can represent a significant part of the fund's ongoing annual fees and is more akin to an ongoing operating expense the fund would incur if it were managing the acquired fund's underlying portfolio investments directly. For example, we understand that certain funds, such as certain target date funds, have no, or very low, management fees at the acquiring fund level, with the majority of fees borne at the acquired fund level. For these funds, a fee table with no AFFE line item has the potential to confuse investors in that it could show 0 or close to 0 ongoing annual fees.

To determine whether a fund may omit AFFE from its prospectus fee table, the proposal would use a 10% threshold based on the average of the fund's investments in acquired funds (excluding money market funds) divided by the fund's total assets.[616] To calculate the 10% threshold, a fund would:

- Divide the fund's investments in acquired funds (excluding money market funds) by the fund's total assets at the end of each of the 12 months that make up the prior fiscal year. This will produce 12 data items (or fewer if the fund has not been in operation for a full fiscal year).
- Calculate the average of the 12 data items. If this figure is 10% or less, the fund may omit AFFE from its prospectus fee table and instead include the prescribed

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616 *See* proposed Instruction 4(f)(ii) to proposed Item 8A of Form N-1A. We are also proposing to remove the language in current Instruction 3(f)(i) to Item 3 of Form N-1A that provides, "In the event the fees and expenses incurred indirectly by the Fund as a result of investment in shares of one or more Acquired Funds do not exceed 0.01 percent (one basis point) of average net assets of the Fund, the Fund may include these fees and expenses under the subcaption 'Other Expenses' in lieu of this disclosure requirement." We believe that our proposal to permit funds that hold limited acquired fund investments to disclose AFFE in a footnote instead of the fee table would result in funds never, or very rarely, qualifying to disclose AFFE under the "other expenses" line item under this instruction.

footnote.

The 10% threshold is based on an average of month-end holdings, rather than holdings as of the end of the fiscal year or another single date, to smooth fluctuations, such as those related to market events and investor flows. It also would help mitigate any gaming concerns by limiting funds' ability to reduce their investments in other funds to stay below the 10% threshold only on a given date. The month-end calculation is also aligned with Form N-PORT requirements for month-end portfolio data, which may reduce the need for funds to collect new data under the proposal and facilitate verifications that a fund may disclose AFFE in a footnote.[617] We also propose to omit all money market fund investments from the 10% calculation.[618] We understand that funds, including funds that invest significantly in other funds, typically invest in money market funds for cash management purposes rather than to pursue the fund's investment objective through an investment in another fund.[619]

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617 Because a new fund would not have this monthly data, a new fund should base the 10% threshold on assumptions of the percent of acquired funds in which the new fund expects to invest. *See* proposed Instruction 4(f)(vii) to proposed Item 8A of Form N-1A. Currently, new funds make similar assumptions about expected acquired fund investments for purposes of disclosing the amount of AFFE. *See* Instruction 3(f)(vi) to Item 3 of current Form N-1A.

618 The Commission previously has determined that money market funds, which did not exist in 1940, do not raise the concerns underlying section 12(d)(1) of the Investment Company Act and has permitted funds to invest an unlimited amount of their uninvested cash in money market funds rather than directly in short-term instruments. *See* 17 CFR 270.12d1-1 (rule 12d1-1).

This proposed instruction does not change the current treatment of money market funds with respect to the calculation of AFFE.

619 Some funds, such as target date funds, may hold money market funds consistent with stated asset allocation objectives (particularly when they reach or pass their stated target date). However, these same funds tend to invest significantly in other funds as well, making them ineligible to move AFFE disclosure to a footnote under the proposal.

While the calculation of the 10% threshold would be based on monthly data, the proposal would not require a fund to assess whether it may disclose AFFE in a footnote to the fee table on a monthly basis or to update its prospectus fee table based solely on such monthly assessments. Instead, a fund would assess whether it is below the 10% threshold when it otherwise must update its prospectus fee table (*e.g.*, at the time of its annual prospectus update) based on information as of its prior fiscal year.[620] However, if there is a material change to the amount a fund invests in other funds (such as due to a change to the fund's strategies) or its AFFE, we would expect the fund to update its prospectus to reflect the change just as it would for any other material changes to its annual ongoing fees.[621] We propose to permit, rather than require, a fund with limited acquired fund investments to disclose AFFE in a footnote to limit burdens on funds that would prefer to consistently disclose AFFE in the fee table instead of monitoring the amount of acquired fund investments to determine eligibility for the footnote-based approach. Moreover, we recognize that a fund that tends to maintain acquired fund investments close to the 10% threshold may prefer to disclose AFFE in the fee table each year instead of moving the disclosure back and forth between the footnote and the fee table, which could lead to investor confusion.

The footnote that a fund eligible to use the new AFFE presentation would be permitted to use would have to include: (1) the amount of the fund's AFFE, and (2) a statement that the

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620 This is consistent with the calculation of ongoing annual fees which is also based on amounts incurred during the fund's most recent fiscal year. *See* proposed Instruction 4(d) to Item 3 of Form N-1A and proposed Instruction 4(d) to proposed Item 8A of Form N-1A.

621 *See* proposed Instruction 4(d)(ii) to Item 3 of Form N-1A and proposed Instruction 4(d)(ii) to proposed Item 8A of Form N-1A.

fund's total ongoing annual fees in the table and fee summary would be higher if these fees and expenses were included.[622] We believe this requirement would provide investors with AFFE information they could use to compare funds and would help them understand the relevance of a fund's AFFE amount. The footnote to the fee table would be tagged using XBRL, so the AFFE amount would continue to be available not only to investors viewing the prospectus and summary prospectus, but also to data aggregators and other market participants.[623]

In addition to amending the scope of funds that must disclose AFFE in the prospectus fee table and fee summary, we are proposing two technical amendments to AFFE disclosure requirements. First, we propose to correct the manner in which a fund that has been in operation for less than a full year calculates AFFE. Specifically, rather than calculating this figure using the number of days in the fund's fiscal year, we propose to require such a fund to use the number of days since the date the fund made its first investment.[624] We believe this would result in a more accurate calculation for new funds. For example, if a fund made its first investment six months ago and owned other funds for that entire period, the current AFFE calculation would provide a figure that is half of the actual fees attributable to the underlying funds. This is because the numerator would be based on the six-month holding period (*e.g.*, 182 days) and the denominator would be based on the full fiscal year (*i.e.*, 365 or

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622 *See* proposed Instruction 4(d) to Item 3 and proposed Instruction 4(f)(ii) to proposed Item 8A of Form N-1A.

623 *See infra* Section II.H.1.i (discussing structured data requirements for the prospectus fee table).

624 *See* Instruction 4(f)(ii) to proposed Item 8A of Form N-1A.

366 days). Under our proposed revision, both the numerator and denominator would be based on the same period of time. We understand that some new funds already use the number of days since the fund made its first investment in the denominator.

Second, we propose to amend an optional footnote instruction. This instruction permits a fund to explain that the total ongoing annual fees in the fee table do not correlate to the ratio of expenses to average net assets provided in the fund's financial highlights.[625] We propose to amend this instruction to permit funds to explain that the total ongoing annual fees in the fee table do not correlate to the expense presentation in the fund's shareholder reports.[626] We believe the shareholder report would be a better point of comparison under the proposal because shareholders would receive the shareholder report directly, while a fund's financial highlights would be available online and delivered upon request.

We request comment on the proposed amendments to AFFE disclosure, including the following:

239. Should we amend AFFE disclosure requirements to allow funds that invest 10% or less of total assets in acquired funds to omit the AFFE amount from the fee table and instead disclose the amount of a fund's AFFE in a footnote to the fee summary and fee table, as proposed? If not, why not? Instead of permitting funds with limited acquired fund

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625 *See* Instruction 3(f)(vii) to Item 3 of current Form N-1A.

626 *See* Instruction 4(f)(viii) to proposed Item 8A of Form N-1A. Under the proposal, funds could still refer to the financial highlights in this optional footnote if they chose to do so.

*See also* discussion at *supra* footnote 430 and accompanying text (stating that Item 13 of Form N-1A requires a fund to include financial highlights information in its prospectus, and discussing funds' ability to incorporate this information into the prospectus by reference so long as the fund delivers the shareholder report with the prospectus (*i.e.*, for new shareholders)).

investments to disclose the amount of a fund's AFFE in a footnote, should we require all such funds to disclose AFFE in a footnote? Would a mandatory approach reduce, increase, or have no effect on the potential for investor confusion relative to the proposed approach? Should we permit or require all funds, regardless of the magnitude of their acquired fund investments, to include AFFE in a footnote?

240. Should we modify the proposed method for determining whether a fund may disclose AFFE in a footnote instead of in its bottom line ongoing annual fees in the fee table and fee summary? If so, how? Should we modify the 10% threshold? For example, instead of requiring a fund to measure the monthly average of its investments in acquired funds (excluding money market funds) during the prior fiscal year, should we base the 10% calculation on the amount of acquired fund investments as of the end of the fiscal year, at the time of acquiring a security issued by an acquired fund, at the time the fund amends its prospectus, or on some other basis? What are the advantages and disadvantages of these different approaches? Is it appropriate to exclude money market funds from the 10% threshold? If not, why not? Should we reduce or increase the 10% threshold? For example, should the threshold be 5%, 25%, or 50% of total assets? Alternatively, instead of using a threshold based on the percent of assets invested in acquired funds, should we use a different approach? Please explain.

241. Are there any gaming concerns associated with the proposed approach to AFFE disclosure that may potentially harm investors? For example, are there concerns that funds would hold large investments in acquired funds, but engineer their investments so that they are below the proposed 10% threshold at the time of calculation? If so, how would this

harm investors, and how could we modify the proposed approach to mitigate gaming concerns?

242. Should we, as proposed, instruct new funds to base the 10% threshold on assumptions of the percent of acquired funds in which the new fund expects to invest? If not, what would be a more appropriate approach for new funds, and why?

243. Should the proposed footnote to the fee table and fee summary provide different or additional information than the amount of the fund's AFFE and a statement that the fund's total ongoing annual fees in the table and fee summary would be higher if these fees and expenses were included? If so, what information should the footnote provide? Should we require funds to provide quantitative or qualitative information about other performance costs, including securities lending costs and transaction costs of the fund buying and selling portfolio investments, in the same or similar footnotes (for example, taking an approach that is the same as or similar to the approach we are proposing for the shareholder report expense presentation)? Why or why not?

244. Should we amend the scope of acquired fund investments that AFFE reflects? Instead of requiring a fund to include fees and expenses from any investment in an investment company or a company that would be an investment company but for section 3(c)(1) or (c)(7) of the Investment Company Act, should we broaden or narrow the scope? For example, we understand that currently funds do not treat investments in the following vehicles that may rely on the exclusion in section 3(c)(7) as acquired fund investments: structured finance vehicles, collateralized debt obligations, or other entities not traditionally considered pooled investment vehicles. Should some or all of these investment types be treated as acquired fund

investments for purposes of AFFE disclosure requirements? Are there other categories of investments that AFFE should or should not include?

245. Instead of permitting funds that invest 10% or less of their total assets in acquired funds to omit the AFFE amount in the fee table and replace it with a footnote, should we permit or require all funds to exclude 10% of their total assets in acquired funds from the AFFE calculation in order to treat all funds consistently?

246. As another alternative, should we permit a fund to disclose AFFE in a footnote to the fee table, instead of in the fee table itself, if the amount of the fund's AFFE is below a certain threshold? If so, what threshold should we use for determining when a fund's AFFE is sufficiently small, relative to its other expenses, such that the fund does not need to include AFFE in the fee table? For example, should we permit a fund to disclose AFFE in a footnote to the fee table if the amount of its AFFE was less than a specific percentage of its annual ongoing fees (excluding AFFE) or average net assets? If so, what specific threshold should we use, and why? Would this approach improve the utility of the disclosure for investors? How would this approach affect the consistency of the fee table disclosure, relative to the proposed approach? For example, would it result in AFFE amounts moving in and out of the fund's ongoing annual fee figure at a greater or lesser frequency than the proposal?

247. Commenters have expressed particular concern about AFFE disclosure's impact on BDC investments.[627] Would our proposed amendments address these concerns? Why or why not? If not, how could we address these concerns? Should we, as some

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[627] *See supra* footnote 611.

commenters suggested, allow funds to exclude fees and expenses from BDC investments in AFFE disclosure? If so, why should BDC fees and expenses be excluded when other types of acquired funds that may have similar strategies, nature of expenses, and portfolio holdings are included?

248. Should we amend AFFE disclosure requirements in Forms N-2, N-3, N-4, and N-6 for other types of investment companies? If so, should we modify these requirements in the same manner as the proposed amendments to Form N-1A, or are there changes we should make to recognize differences between registrant types?

249. As proposed, should we remove the current instruction allowing funds to disclose AFFE under the "other expenses" line item of the fee table if the fund's AFFE does not exceed 0.01 percent of average net assets? If not, under what circumstances would this instruction be useful?

250. Would the proposed amendments to AFFE disclosure result in any unintended consequences for investors, funds, or other market participants? Please explain.

251. As proposed, should we modify the AFFE calculation for funds that have been in operation for less than a year to use the number of days since the date the fund made its first investment instead of the number of days in the fund's fiscal year? Is there a different approach we should use to improve the accuracy of the AFFE calculation for these funds? Should we similarly amend the AFFE instructions in Forms N-2 and N-3?

252. As proposed, should we permit funds that disclose AFFE in their fee tables to include a footnote distinguishing the fund's ongoing annual fees from its shareholder report expense presentation? Consistent with the proposal, should funds continue to be able to refer

to differences between the prospectus fee table and financial highlights in this optional footnote as well? If not, why not?

h. Portfolio Turnover

In addition, we propose to include portfolio turnover disclosure in both the fee summary and the full fee table and to modify the narrative that accompanies the portfolio turnover rate to enhance clarity and provide for more concise disclosure.[628] We believe that this disclosure helps investors understand the effect of portfolio turnover, and the resulting transaction costs, on fund expenses and performance. However, we believe the current disclosure is too lengthy, and that this length does not contribute to (and may detract from) investor understanding. Therefore, we propose to reduce the length of the prescribed disclosure without changing its meaning. We believe this change will make the portfolio turnover disclosure more inviting and usable by investors. We are including this disclosure in both the fee summary and the fee table because we continue to believe this information is necessary to understand the full context of fund fees and should therefore accompany any prospectus fee presentation. Below is a chart showing the current disclosure, along with its replacement.

| **Current Disclosure and Form N-1A Location** | **Proposed Disclosure and Form N-1A Location** |
|---|---|
| ***Portfolio Turnover***<br><br>The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may | ***Portfolio Turnover***<br><br>Portfolio turnover measures how often a fund buys and sells its investments. A higher portfolio turnover rate may indicate higher transaction costs and may |

[628] *See* proposed Items 3 and 8A of Form N-1A.

| | |
|---|---|
| indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was % of the average value of its portfolio.<br><br>(Item 3) | result in higher taxes. The Fund's annual portfolio turnover rate is ____%.<br><br>(Items 3 and 8A) |

We seek comment on the proposed approach to portfolio turnover disclosure, and specifically on the following issues:

253. Are the proposed changes to the portfolio turnover disclosure helpful? If not, what improvements, if any, would commenters recommend?

i. Structured Data Requirements

Finally, we are proposing minor amendments to the Form N-1A General Instructions regarding the requirements for funds to submit interactive data files (formatted XBRL) containing their risk/return summary information, which includes objectives, fees, principal strategies, principal risks, and performance disclosures.[629] Because, as discussed above, we are proposing to move the current full fee table from Item 3 of Form N-1A to new Item 8A of Form N-1A, we are proposing a conforming change requiring funds to tag the data elements in Item 8A instead of in Item 3 (as they currently do). We continue to believe that market

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[629] *See* General Instruction C.3.g(i), (iv) to Form N-1A (requiring funds to submit an Interactive Data File for any registration statement or post-effective amendment thereto on Form N-1A that includes or amends information provided in response to Items 2, 3, or 4); *see also* General Instruction C.3.g to proposed Form N-1A.

participants should have access to the full fee table in structured data format. We are not proposing to require that funds tag the proposed fee summary in addition to the full fee table because the fee summary is derived from the full fee table, so requiring funds to tag both presentations would be redundant.

We seek comment on the proposed amendments to the Form N-1A General Instructions regarding funds' structured data requirements, and specifically on the following issues:

254. Are the proposed amendments to the Form N-1A General Instructions regarding the use of structured data appropriate? Given that the full fee table in the fund's statutory prospectus would continue to be tagged, and the information included in the summary fee table would be the same as that in the statutory fee table, would it also be necessary to require a fund to tag the summary fee table? If so, why?

255. Funds must submit their prospectus fee tables in a structured format, but other fee information generally is not in a structured format. Is there any other fee-related information in fund disclosure, including in financial statements, that funds should submit in a structured format (such as in Form N-CEN)? If so, what are these items and what are the benefits of structured disclosure for these items?

### 2. Improved Prospectus Risk Disclosures

We are proposing to revise the current provisions and instructions in Form N-1A requiring that a fund disclose in its prospectus the principal risks of investing in the fund.[630]

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[630] *See* Item 4(b)(1)(i) of Form N-1A; proposed Item 4(b)(1)(i) of Form N-1A; proposed Item 9(c) of Form N-1A.

Funds' prospectus disclosure requirements are designed to help promote informed investment decisions by providing investors with information that is easy to use and readily accessible. The revisions and additions we are proposing are designed to further improve fund prospectus risk disclosure by making this disclosure clearer and more specifically tailored to a fund.

Items 4 and 9 of Form N-1A address disclosure of the principal risks of investing in the fund. Both of these items are designed to provide user-friendly, clear and succinct disclosures. Item 4 requires that the fund summarize the principal risks in the summary section of the statutory prospectus (or the summary prospectus, to the extent the fund is relying on rule 498).[631] The information that a fund currently provides in response to Item 4 must be based on the information that the fund provides in response to Item 9(c) of Form N-1A, which requires that the registrant disclose the principal risks of the fund. Item 9 was designed to allow for fuller information about fund risks, but still requires that a fund only disclose principal risks.

We believe that some funds are providing risk information in their prospectuses and summary prospectuses that is often long, but does not achieve the policy goals of these current disclosure requirements.[632] This length may not contribute to (and may sometimes detract

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631 For purposes of the discussion in this section, the term "summary prospectus" refers both to the summary section of the statutory prospectus, as well as a summary prospectus prepared by a fund in reliance on rule 498. *See supra* footnote 6.

632 For example, researchers have found that investment company risk disclosure in the summary prospectus has nearly doubled in length since 2010. These researchers state that the principal risk section accounted for 31% of the disclosure in 2010 and steadily climbed to 48% in 2018 (with more than double the average word count from 2010). Anne M. Tucker and Yusan Xia, Investing in the Dark: Investing Company Disclosure Qualities, Content and Compliance, 27-28 (2019), *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3436952.

from) investors' understanding of the principal risks of an investment in a particular fund. Because of its length, this disclosure also may not be user-friendly, particularly to retail investors. Commission staff has recently published its observations regarding some of the issues that the staff has observed with respect to funds' risk disclosures.[633] The staff document would be withdrawn if the Commission's proposal is adopted. The amendments that we are proposing are designed to respond to the issues that we have observed in some funds' prospectus risk disclosure and to promulgate additional requirements that we believe would be beneficial to funds and investors.

We are proposing to add to the General Instructions to Form N-1A a provision that would preclude a fund from disclosing non-principal risks in the prospectus.[634] While Items 4 and 9 of Form N-1A currently specify that funds describe "principal risks," there is not a requirement that risk disclosure appearing in the statutory prospectus be limited to the fund's principal risks.[635] We believe that including this disclosure in the prospectus may overwhelm other important information. The proposed provision is designed to streamline risk disclosure in the prospectus, focus on essential information, and clarify current form requirements that

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633 *See* ADI 2019-08, *supra* footnote 67. This document encourages funds to order their risks by importance and better tailor their principal risk disclosure.

634 *See* General Instruction C.3.(a) to proposed Form N-1A.

635 *See* ADI 2019-08, *supra* footnote 67. The Form N-1A General Instructions currently prohibit the disclosure of non-principal risks in the summary prospectus (or summary section of the statutory prospectus), but no instructions currently prohibit this disclosure from appearing in other parts of the statutory prospectus. *See* General Instruction C.3.(b) to Form N-1A ("A Fund may include, except in response to Items 2 through 8, information in the prospectus or the SAI that is not otherwise required.").

emphasize the disclosure of "principal" risks. Funds would remain free to disclose non-principal risks in the SAI.

We are proposing several new requirements for principal risk disclosure that appears in the summary prospectus. First, we are proposing to insert the term "briefly" before the current requirement that the fund summarize the principal risks.[636] This proposed change is designed to address the concern that, for some funds, principal risk disclosure in the summary prospectus is overly lengthy. We have observed significant variations in funds' approaches to principal risk disclosures in the summary. For example, some funds describe just a few principal risks in less than 200 words, while other funds in the same category list 20 or more principal risks using more than 2,500 words. Some of the longest disclosures the staff has seen in the summary section exceed 7,000 words. Indeed, the staff has observed that some funds simply repeat risk information that appears later in the statutory prospectus instead of summarizing it.[637] The proposed change is designed to emphasize that principal risk disclosure that appears in the summary prospectus should be concise and succinct, with more detailed risk information to appear later in the statutory prospectus.

We are proposing an additional new instruction to the summary prospectus principal risk disclosure requirement stating that funds should describe principal risks in order of importance, with the most significant risks appearing first.[638] We believe that this presentation

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636 *See* Item 4(b)(1)(i) of proposed Form N-1A. In both the current item and the proposed item, the summary of principal risks is based on information that the fund provides in response to Item (9).

637 *See* Fund Investor Experience RFC, *supra* footnote 8, at Section II.D.2.

638 *See* Instruction 2 to Item 4(b)(1) of proposed Form N-1A.

would highlight for investors the risks that they should consider most carefully. We have observed that it is currently common for funds to describe their principal risks in alphabetical order.[639] However, we believe that this approach could obscure the importance of key risks, especially when a fund discloses many principal risks. For example, a real estate fund that describes principal risks alphabetically may describe a number of less-relevant risks before describing the key risks of real estate investments. In some extreme cases, this presentation format could result in a fund's key risks being obscured to such an extent that it could render the disclosure potentially misleading. We understand that there are different ways of determining the relative significance of principal risks. The proposed new instruction therefore specifies that a fund may use any reasonable means of determining the significance of risks. For example, a fund could take an approach to ordering its principal risks in a way that considers the likelihood and possible severity of any loss resulting from each risk. This proposed new instruction would include an explicit statement that a fund should not describe principal risks in alphabetical order.

Finally, we are proposing an additional instruction to the summary prospectus principal risk disclosure requirement that instructs a fund to, where appropriate, tailor its risk disclosures to how the fund operates rather than rely on generic, standard risk disclosures.[640] We have observed that some prospectuses for funds within a fund group commonly include generic, standardized risk disclosures for every fund in the group. Such standardized disclosure may be appropriate under certain circumstances. For example, "market risk," could

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639 *See* ADI 2019-08, *supra* footnote 67.

640 *See* Instruction 3 to Item 4(b)(1) of proposed Form N-1A.

be a principal risk for all funds in a complex. However, there are other circumstances in which generic, across-the-board risk disclosures for all funds in a fund complex may not be appropriate. For example, we do not believe it would be appropriate for a fund to include credit risk disclosure that discusses the heightened risks associated with below-investment-grade or distressed securities when the fund does not hold, or expect to hold, these types of investments.

We are also proposing amendments that would affect funds' principal risk disclosures in the statutory prospectus, as well as the summary prospectus. Specifically, we are proposing to add three new instructions relating to Form N-1A Item 9(c), which requires a fund to disclose the principal risks of investing in the fund in its statutory prospectus.[641] Because Item 4 of Form N-1A requires a fund to summarize the principal risks of investing in the fund, based on the information the fund provides in response to Item 9(c), the proposed new instructions to Item 9(c) would also affect the disclosure that a fund provides in the summary prospectus in response to Item 4.

Proposed Instruction 1 states that in determining whether a risk is a principal risk, a fund should consider both whether the risk would place more than 10% of the fund's assets at risk ("10% standard") and whether it is reasonably likely that a risk will meet this 10% standard in the future. Today, funds may be using varying standards to determine whether a risk is a principal risk. This makes it difficult for an investor to compare risks among funds. This proposed instruction is designed to clarify the meaning of the term "principal risk" by

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641 *See* Instructions 1 through 3 to Item 9(c) of proposed Form N-1A.

providing quantitative guidance as to what a fund should consider when it determines whether a risk is a principal risk. For example, a fund that invests 10% or more of its assets in a particular sector, such as financial services or consumer staples, could determine that it should disclose a "principal risk" relating to its investments in that sector. A fund also could determine that it should disclose a "principal risk" in some circumstances when the fund uses less than 10% of its assets to make investments, when those investments may subject the fund to risk of loss of more than 10% of its assets, for example, a fund that engages in short sales or derivatives trading.

The "reasonably likely" language is designed to reflect that a risk may not be a principal risk when first disclosed but may become a principal risk over time, due to changing conditions or the fund changing its strategies.[642] For example, interest rate risk for a fixed income fund could increase depending on government action that affects interest rates. As another example, a fund investing in U.S. equities may change its strategy to include foreign investments and thus may introduce foreign investment risk. Therefore, if the fund considers it reasonably likely that a risk will become a principal risk in the future, it should consider whether to include it in the prospectus to help ensure that when it becomes a principal risk, investors will be informed. On the other hand, the proposed "reasonably likely" language reflects our view that risks that are not likely to become principal risks should be excluded from a fund's principal risk disclosure, consistent with the purpose of streamlining the prospectus.

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642 The "reasonably likely" standard is a standard already used to describe principal risks in Items 4(b)(1)(i) and 9(c) of Form N-1A..

Proposed Instruction 2 is addressed to a fund investing in other funds (an "acquiring fund" and an "acquired fund," respectively), commonly known as a "fund of funds."[643] We have observed that many acquiring funds disclose all of the principal risks of each of their acquired funds as part of their principal risk disclosure. In some cases, acquiring funds list over 70 principal risks. The proposed instruction states that, in the case of acquiring funds, risks should be included only if they are principal risks of the acquiring fund, and that a principal risk of an acquired fund should not be included unless it is a principal risk of the acquiring fund. In the case of an acquiring fund, disclosing the risks of acquired funds could obscure information relating to principal risks of the acquiring fund. We believe that the key consideration for an investor relates to the principal risks of the fund in which the investor is actually buying shares, *i.e.*, the acquiring fund, and the proposed instruction is therefore designed to help an investor focus on principal risks that are most applicable to his or her investment. A principal risk of an acquired fund might be a principal risk of the acquiring fund when, for example, the acquiring fund invests a substantial portion of its assets in an acquired fund (or the risk is shared by multiple acquired funds).[644]

Proposed Instruction 3 is addressed to funds whose strategy provides the freedom to invest in different types of assets at the manager's discretion. This could occur if, for example, the manager has discretion to change the fund's strategy. These funds are commonly known

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643 While the Commission recently proposed rules relating to fund of funds arrangements, this proposal did not address risk disclosure by funds investing in other funds. *See* Fund of Funds Proposing Release, *supra* footnote 608.

644 For example, if a particular risk of the acquired funds in the aggregate places more than 10% of the acquiring fund's assets at risk, that risk is a principal risk of the acquiring fund. *See also* Instruction 1 to Item 9(c) of proposed Form N-1A.

as “go anywhere” funds. This instruction would provide that, if the fund’s strategy permits the manager discretion to invest in different types of assets, such fund must disclose that an investor may not know – and has no way to know – how the fund will invest in the future and the associated risks. This proposed instruction would make that principal risk explicit in the fund’s disclosure.

We seek comment on the proposed amendments to prospectus disclosure requirements regarding funds’ principal risks, and specifically on the following issues:

256. Is the proposed amendment in the General Instructions to Form N-1A to preclude disclosure of non-principal risks in the statutory prospectus appropriate? Would the proposed amendment further the goal of streamlining risk disclosure in the prospectus and focusing on essential information? Should the proposed amendment to the General Instructions instead use another standard in precluding the disclosure of certain less-central risks in the fund’s prospectus, such as prohibiting the disclosure of “non-material” risks? If so, what should this alternative standard be and how should we define it?

257. Is the proposed amendment to Form N-1A Item 4(b)(1)(i), which specifies that a fund should “briefly” summarize principal risks, appropriate? Would this proposed amendment help emphasize the Commission’s goal of making the principal risk disclosure in the summary prospectus concise and succinct?

258. Is the proposed new instruction to Item 4(b)(1)(i), providing that a fund in a complex should describe principal risks in order of importance, appropriate? Is it helpful to expressly provide in the proposed instruction that a fund may use any reasonable means to determine the significance of the risk? Should the proposed instruction be more prescriptive as to how a fund should determine the significance of risk, and if so, what method for

determining risks' significance should the instruction specify (for example, should the proposed instruction specify ways in which a fund could—or must—quantify likelihood and severity of risk, and if so what methods for quantification should the instruction specify)? Should additional guidance be provided? Is it appropriate to expressly state in the proposed instruction that a fund should not list its principal risks in alphabetical order? Are there circumstances where an alphabetical order presentation may be appropriate and if so which ones?

259. Should the number of principal risks that funds disclose in the summary prospectus be subject to any limits? Should we require a minimum number of risks to be disclosed? For example, would five be sufficient? Should we impose a maximum number of risks that may be disclosed in the summary? For example, would more than twenty-five be too many?

260. Is the proposed new instruction to Item 4(b)(1)(i), providing that a fund should tailor its risk disclosure to how each particular fund in the complex operates, appropriate? Does this proposed instruction provide adequate guidance as to tailoring risk disclosure? Should additional guidance be provided?

261. With regard to Form N-1A Item 9(c), is the proposed new instruction on the factors a fund should consider in determining whether a risk is a principal risk useful and appropriate? Would it give investors adequate information regarding the risks they should consider in determining whether to purchase shares of the fund? Is the proposed standard for considering whether a risk is a principal risk—that the risk is one that would place more than 10% of the fund's assets at risk (or it is reasonably likely that it would place more than 10% of the fund's assets at risk in the future)—appropriate? Should the proposed 10% be more or

less? For example, should the standard be 5% or 20% of the fund's assets at risk? If so, why? Should there be a numerical standard associated with the instruction for determining whether a risk is a principal risk, and if so, what quantitative or other criteria should inform this standard? Is the applicability of the 10% standard to the fund's assets appropriate? Would a 10% standard help achieve the goal of providing user-friendly, clear and succinct disclosures? If not, why not? Is the "assets at risk" standard clear and appropriate? If not, why not? Would the proposed instruction providing that a fund should consider whether it is "reasonably likely" that a risk will become a principal risk in the future give adequate notice of future risks? Is this provision sufficiently clear? Is the term "reasonably likely" clear? Should we provide guidance or a definition regarding this term? Are there other means of determining principal risks that would be more effective? Should there be guidance regarding consideration of non-investment related risks, such as cybersecurity risk and new fund risk, as principal risks?

262. Is the proposed instruction that addresses risk disclosure in fund-of-funds arrangements appropriate? Would this proposed instruction be effective in promoting the policy goal of helping investors focus on the principal risks of the fund in which the investor is purchasing shares?

263. Is the proposed instruction addressing the principal risks of "go-anywhere" funds appropriate? Would this instruction effectively convey the uncertainty of the fund's investments and the associated principal risks? If not, what amendments would improve the instruction?

264. Are there other changes we can make to risk disclosure to make this information more investor-friendly, clear and succinct?

265. The Commission recently adopted amendments to rule 8b-16(b) under the Investment Company Act, which would require registered closed-end funds that rely on this rule to include—among other things—new disclosure about their principal risks in their annual reports.[645] Should we extend any of the proposed amendments to open-end funds' prospectus risk disclosure to closed-end fund prospectus disclosures or the new annual report risk disclosures required for certain closed-end funds? If so, how should we amend the risk disclosure requirements for these closed-end funds?

### 3. Prospectuses and SAIs Transmitted Under Rule 30e-1(d)

We are proposing to rescind rule 30e-1(d), which permits a fund to transmit a copy of its prospectus or SAI in place of its shareholder report, if it includes all of the information that would otherwise be required to be contained in the shareholder report.[646] Shareholder report and prospectus disclosures have historically served different purposes, with each catering to the different informational needs of prospective fund investors and current shareholders.[647]

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645 *See* Closed-End Fund Offering Reform Adopting Release, *supra* footnote 128, at Section II.I.5; *see also supra* footnote 132 and accompanying text.

646 *See* rule 30e-1(d). When the Commission initially adopted rule 30e-1(d), it allowed a fund to send a copy of its prospectus or SAI, or both, instead of a shareholder report, so long as such prospectus or SAI included certain financial information and information about director's compensation. *See* Standardized Financial Statement Requirements in Management Investment Company Registration Statements and Reports to Shareholders, Investment Company Act Release No. 11490 (Dec. 15, 1980) [45 FR 83517 (Dec. 19, 1980)]. However, when the Commission expanded the required shareholder report disclosures, it simultaneously amended rule 30e-1(d) to limit a fund's ability to use a prospectus or SAI in place of a shareholder report by requiring that a fund include in such a prospectus or SAI *all* the information that would otherwise be required in the shareholder report. *See* Role of Independent Directors of Investment Companies, Investment Company Act Release No. 24082 (Oct. 14, 1999) [64 FR 59826 (Nov. 3, 1999)].

647 *See supra* Section II.A.2 (discussing the differences between shareholder report and prospectus disclosures and noting that the shareholder report provides information to a fund's current shareholders about the fund's operations and performance during the past fiscal period,

We understand that funds very rarely rely on rule 30e-1(d) to transmit a prospectus or SAI in place of a shareholder report. Additionally, we believe that allowing funds to consolidate their prospectus, SAI and shareholder report disclosures into a single document would result in shareholders receiving long, complex, and overlapping fund disclosures which could cause shareholder confusion and fatigue. This result would not be consistent with the goals of this rulemaking proposal.

We seek comment on our proposal to rescind rule 30e-1(d):

266. Do funds currently rely on rule 30e-1(d)? If so, which funds, and why?

267. Would investors benefit from receiving in the fund's prospectus or SAI the disclosure that would otherwise have to appear in the shareholder report? Would this cause investor confusion and/or overwhelm investors? If so, is there any way to preserve the ability of funds to rely on rule 30e-1(d) while mitigating these potential negative effects?

### L. Investment Company Advertising Rule Amendments

As part of our proposed improvements to fund fee and expense information for investors, we are proposing to amend the Commission's investment company advertising rules (for purposes of this release, Securities Act rules 482, 156, and 433 and Investment Company Act rule 34b-1) to promote transparent and balanced presentations of fees and expenses in investment company advertisements.[648] As investment companies increasingly

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while the prospectus acts as the principal selling document for investors to inform investment decisions and facilitate fund comparisons).

648 For purposes of this release, we generally refer to the types of investment company communications covered by rules 482, 156, 433, and 34b-1 as "advertisements," unless otherwise noted. Although the Commission recently proposed rule amendments relating to investment adviser advertisements, that proposal did not address investment company advertising rules. *See* Investment Adviser Advertisements; Compensation for Solicitations,

compete and market themselves on the basis of costs, we are concerned that investment company advertisements may mislead investors by creating an inaccurate impression of the costs associated with an investment.[649] The proposed advertising rule amendments would generally apply to all investment companies, including mutual funds, ETFs, registered closed-end funds, and BDCs.[650] Under the proposed amendments, investment company fee and expense presentations in advertisements would have to include timely and prominent information about a fund's maximum sales load (or any other nonrecurring fee) and gross total annual expenses, based on the methods of computation that the company's Investment Company Act or Securities Act registration statement form prescribes for a prospectus.[651] We also are proposing to amend rule 156 to provide factors an investment company should consider to determine whether representations in its advertisements about the fees and expenses associated with an investment in the fund could be misleading.[652]

Investment company advertisements, including advertisements regarding registered investment companies and BDCs, typically are prospectuses for purposes of the Securities Act.[653] These advertisements are typically subject to rule 482, which provides a framework in

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Investment Advisers Act Release No. 5407 (Nov. 4, 2019) [84 FR 67518 (Dec. 10, 2019)].

649 *See supra* Section I.C.

650 As a result, for purposes of this Section II.I, the term "fund" is not limited to mutual funds and ETFs registered on Form N-1A. Instead, we use this term more broadly in this Section to refer to any investment company that is subject to the Commission's investment company advertising rules, including registered closed-end funds and BDCs.

651 *See* proposed rule 482(i) and (j); proposed rule 34b-1(c); proposed rule 433(c).

652 *See* proposed rule 156(b)(4).

653 *See* section 2(a)(10) of the Securities Act (defining the term "prospectus" to mean any prospectus, notice, circular, advertisement, letter, or communication, written or by radio or television, which offers any security for sale or confirms the sale of any security, subject to

which investment company advertisements are deemed to be "omitting prospectuses" that may include information the substance of which is not included in a fund's statutory or summary prospectus.[654] Rule 482 establishes certain content, legend, and filing requirements for investment company advertisements. Many of the rule's content requirements focus on advertisements that include performance data of certain types of funds, including mutual funds, ETFs, certain separate accounts, and money market funds.[655] For example, the rule provides a standardized formula for these funds to calculate performance data included in their advertisements.[656] Instead of relying on rule 482, registered closed-end funds and BDCs may use free writing prospectuses in accordance with rule 433 and certain other Commission rules for advertising purposes.[657] Because both rule 482 advertisements and free writing prospectuses are treated as prospectuses under section 10(b) of the Securities Act, they are subject to liability under section 12(a)(2) of the Securities Act—which imposes liability for

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certain exceptions, including an exception for a communication that generally was accompanied or preceded by a statutory prospectus).

654 *See* section 10(b) of the Securities Act; rule 482(a) under the Securities Act (stating that the rule applies to an advertisement or other sales material with respect to securities of a registered investment company or BDC that is selling or proposing to sell its securities pursuant to a registration statement that has been filed under the Securities Act, unless the advertisement is excepted from the definition of prospectus by section 2(a)(10) of the Securities Act or rule 498(d), or is a summary prospectus under rule 498).

655 *See* rule 482(b)(3), (d), (e), and (g).

656 *See* rule 482(d) and (e).

657 *See* Closed-End Fund Offering Reform Adopting Release, *supra* footnote 128, at Section II.F.1; 17 CFR 230.164 [rule 164 under the Securities Act] and rule 433 under the Securities Act [17 CFR 230.164 and 17 CFR 230.433].

materially false or misleading statements in a prospectus or oral communications—as well as the antifraud provisions of the Federal securities laws.[658]

Rule 34b-1 applies to supplemental sales literature (*i.e.*, sales literature that is preceded or accompanied by a prospectus) by any registered open-end company, registered unit investment trust, or registered face-amount certificate company.[659] Rule 34b-1 includes many of the same requirements as rule 482, including the same performance-related requirements.[660] The Commission adopted rule 34b-1 to ensure that performance claims in supplemental sales literature would not be misleading and to promote comparability and uniformity among supplemental sales literature and rule 482 advertisements.[661] Supplemental sales literature is subject to the general antifraud provisions of the Federal securities laws.

Rule 156 states that whether or not a particular description, representation, illustration, or other statement involving a material fact is misleading depends on evaluation of the context in which it is made. The rule discusses several pertinent factors that should be weighed in considering whether a particular statement involving a material fact is or might be misleading in investment company sales literature, including rule 482 advertisements and supplemental

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658 *See, e.g.*, section 12(a)(2) of the Securities Act [77*l*]; section 17(a) of the Securities Act [15 U.S.C. 77q]; section 10(b) of the Exchange Act [15 U.S.C. 78j]; section 34(b) of the Investment Company Act [15 U.S.C. 80a-33]; section 206 of the Investment Advisers Act of 1940 [15 U.S.C. 80b-6].

659 *See* rule 34b-1 under the Investment Company Act; section 24(b) of the Investment Company Act.

660 *See* rule 34b-1(b)(1)-(2) under the Investment Company Act.

661 *See* Advertising by Investment Companies, Investment Company Act Release No. 16245 (Feb. 2, 1988) [53 FR 3868 (Feb. 10, 1988)], at Section III; Advertising by Investment Companies; Proposed Rules and Amendments to Rules, Forms, and Guidelines, Investment Company Act Release No. 15315 (Sept. 17, 1986) [51 FR 34384 (Sept. 26, 1986)], at nn.77 and 78 and accompanying text.

sales literature.[662] Rule 156 applies to sales literature used by any person to offer to sell or induce the sale of securities of any investment company, including registered investment companies and BDCs.[663]

Currently, the investment company advertising rules largely focus on performance-related information.[664] Among other things, the performance-related provisions of these rules are designed to: (1) address concerns that investors would be unable to compare fund performance when funds use different calculation methods in their advertisements;[665] and (2) highlight areas that, based on the Commission's experience with investment company advertisements, have been particularly susceptible to misleading statements.[666] The investment company advertising rules do not presently require information about an investment company's fees and expenses or limit how fee and expense information is presented, with one exception. Under the current rules, if an advertisement provides

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662 *See* Mutual Fund Sales Literature Interpretive Rule, Investment Company Act Release No. 10915 (Oct. 26, 1979) [44 FR 64070 (Nov. 6, 1979)] ("Rule 156 Adopting Release").

663 For purposes of rule 156, investment company sales literature includes any communication (whether in writing, by radio, or by television) used by any person to offer to sell or induce the sale of securities of any investment company. *See* rule 156(c) [17 CFR 230.156(c)]. Communications between issuers, underwriters and dealers are included in this definition of sales literature if such communications, or the information contained therein, can be reasonably expected to be communicated to prospective investors in the offer or sale of securities or are designed to be employed in either written or oral form in the offer or sale of securities.

664 Rule 433 does not include performance-related requirements for registered closed-end fund or BDC free writing prospectuses. Currently, most rule 482 content requirements, including the performance-related requirements, do not apply to registered closed-end funds and BDCs.

665 *See* Rule 156 Adopting Release, *supra* footnote 662, at Section I.2.

666 *See* Rule 156 Adopting Release, *supra* footnote 662; Investment Company Sales Literature Interpretive Rule, Investment Company Act Release No. 10621 (Mar. 8, 1979) [44 FR 16935 (Mar. 20, 1979)], at paragraph accompanying n.5.

performance data of an open-end management investment company or a separate account registered as a unit investment trust offering variable annuity contracts, it also must include the maximum amount of the fund's sales load (*i.e.*, purchase charge or exit charge) or any other nonrecurring fee that it charges.[667]

Separately, FINRA rule 2210 requires fee and expense information in certain non-money market fund open-end management investment company advertisements that provide performance information.[668] This includes: (1) the fund's maximum sales charge (*i.e.*, purchase charge or exit charge); and (2) the total annual fund operating expense ratio, gross of any fee waivers or expense reimbursements (*i.e.*, ongoing annual fees). Under FINRA's rule, a fund's standardized performance information, sales charge, and total annual fund operating expense ratio (gross of any fee waiver or expense reimbursement) must be set forth prominently.

To promote more consistent and transparent presentations of investment costs in investment company advertisements, we are proposing to amend rules 482, 433, and 34b-1 to require that investment company advertisements providing fee or expense figures for the company include certain standardized fee and expense figures.[669] The proposed amendments would apply to advertisements of any registered investment company or BDC. We are not proposing to limit the scope of the proposed amendments to a subset of investment companies

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667 *See* rule 482(b)(3)(ii); rule 34b-1(b)(1)(i).

668 FINRA rule 2210(d)(5). This provision only applies to retail communications and correspondence that present non-money market fund open-end management investment company data as permitted by rule 482 and rule 34b-1.

669 *See* proposed rule 482(i)(1).

because we believe investors in any registered investment company or BDC would benefit from advertisements that provide consistent, standardized fee and expense information that is generally aligned with prospectus fee and expense information.

With respect to rule 482, we are proposing to amend the rule to require that investment company advertisements providing fee and expense figures include: (1) the maximum amount of any sales load, or any other nonrecurring fee; and (2) the total annual expenses without any fee waiver or expense reimbursement arrangement (collectively, the "required fee and expense figures").[670] Because we believe that these are important figures for assessing the fees and expenses of a fund investment, the proposal would require any advertisement presenting fee and expense figures to include these items. This proposed requirement would only apply if an investment company advertisement includes fee or expense *figures*, and therefore an advertisement would not need to include the required fee and expense figures if it only included general, narrative information about fee and expense considerations and did not include any numerical fee or expense amounts.[671]

The proposed required fee and expense figures would be based on the methods of computation that the fund's Investment Company Act or Securities Act registration statement form prescribes for a prospectus. This proposed requirement is designed to promote consistent

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670 In an expense reimbursement arrangement, the adviser reimburses the fund for expenses incurred. In a fee waiver arrangement, the adviser agrees to waive a portion of its fee in order to limit fund expenses.

671 This might be the case if, for example, the advertisement only refers to the fund's fees and expenses in the context of the disclosure required by rule 482(b)(1), which requires a statement advising an investor to consider the investment objectives, risks, and charges and expenses of the fund carefully before investing.

fee and expense computations across investment company advertisements, particularly within the same fund category, and to facilitate investor comparisons. We are proposing to require consistency with prospectus requirements because, like a fund's summary or statutory prospectus, advertisements are often designed for prospective investors and may influence an investment decision. Further, similar to associated prospectus requirements, if an advertisement covers only a subset of a fund's share classes, the advertisement could provide the required fee and expense information for those classes only.[672]

While investment company advertisements could include other figures regarding a fund's fees and expenses, the advertisement would have to present the required fee and expense figures at least as prominently as any other included fee and expense figures. For example, under the proposed amendments, an advertisement could include a fund's fees and expenses net of certain amounts, such as a fee waiver or expense reimbursement arrangement, as we understand some fund advertisements do today. However, an advertisement could not present the net figure more prominently than the required fee and expense figures. In addition to meeting the proposed content and presentation requirements, advertisements that include a fund's total annual expenses net of fee waiver or expense reimbursement arrangement amounts would also need to include the expected termination date of the arrangement.[673] We believe this proposed requirement would help investors better understand how a fee waiver or expense reimbursement arrangement may affect their investment costs by providing

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672 *See, e.g.*, Instruction 1(d)(ii) to Item 3 of current Form N-1A; Instruction 1(e) to proposed Item 3 of Form N-1A; Instruction 1(d)(ii) to proposed Item 8A of Form N-1A.

673 *See* proposed rule 482(i)(2).

information about how long the arrangement would likely be in place (including that it may be terminated at any time).[674]

The proposed amendments would also include timeliness requirements for fee and expense information in investment company advertisements.[675] The proposed timeliness requirement would apply to fee and expense *information* and, thus, it would apply to fee and expense figures as well as relevant narrative information. Under the proposal, fee and expense information would need to be as of the date of the fund's most recent prospectus or, if the fund no longer has an effective registration statement under the Securities Act, as of its most recent annual report.[676] A fund would, however, be able to provide more current information, if available. The proposed timeliness requirement is designed to prevent investment company advertisements from including stale, outdated information about a fund's fees and expenses. For instance, a registered open-end fund that maintains an effective Securities Act registration statement on Form N-1A would need to provide its maximum sales load (or other nonrecurring fee) and gross total annual expenses, as of the date of the fund's most recent prospectus.[677] As another example, a registered closed-end fund that includes fee and expense

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674 This also is similar to information that funds generally must include in their prospectuses when including total annual expenses net of a fee waiver or expense reimbursement arrangement. *See* Instruction 3(e) to Item 3 of Form N-1A; Instruction 4(b) to proposed Item 3 of Form N-1A; Instruction 4(e) to proposed Item 8A of Form N-1A; Instruction 15(f) to Item 4 of Form N-3; Instruction 17 to Item 4 of Form N-4.

675 *See* proposed rule 482(j).

676 In the case of a new fund that does not yet have an effective registration statement, fee and expense information would need to be as of the date of the fund's most recent prospectus filed with the Commission.

677 The registered open-end fund's maximum sales load (or other nonrecurring fee) and gross total annual expenses would be computed using the method in proposed Item 8A of Form N-1A. Proposed Item 3 of Form N-1A also requires these figures in a fund's prospectus, but proposed

figures in a rule 482 advertisement and that does not maintain an effective Securities Act registration statement would need to provide its gross total annual expenses, as of the date of the fund's most recent annual report.[678]

We also are proposing to amend rules 34b-1 and 433 so that those rules incorporate rule 482's proposed content, presentation, and timeliness requirements for fees and expenses. This would help ensure that the same fee and expense-related requirements are applied consistently across all registered investment company and BDC advertisements and sales literature. The proposed amendments to rule 34b-1 would provide that any sales literature of a registered investment company or BDC would have omitted to state a fact necessary in order to make the statements therein not materially misleading unless the sales literature meets rule 482's proposed content, presentation, and timeliness requirements for investment company fees and expenses.[679] That is, sales literature that would not otherwise be subject to rule 482 would have to meet rule 482's fee and expense requirements. The proposed amendments to rule 34b-1 would, for example, apply to sales literature that is excluded from the definition of

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Item 8A contains more complete computational instructions for these figures.

678 Under these circumstances, the registered closed-end fund would not have a maximum sales load to report in its advertisement because it does not have an effective Securities Act registration statement and cannot presently sell the fund's securities. The registered closed-end fund's gross total annual expenses would be computed using the method in Item 3 of Form N-2.

679 *See* proposed rule 34b-1(c). The proposed amendments would apply to any registered investment company or BDC advertisement, pamphlet, circular, form letter, or other sales literature addressed to or intended for distribution to prospective investors in connection with a public offering (collectively, "sales literature"). The current provisions of rule 34b-1, which largely relate to performance information, would continue to apply only to sales literature that is required to be filed with the Commission by section 24(b) of the Investment Company Act.

"prospectus" in section 2(a)(10) of the Securities Act and thus is not subject to rule 482.[680] Additionally, we propose to amend rule 433, which establishes conditions for the use of post-filing free writing prospectuses, to require a registered closed-end fund or BDC free writing prospectus to comply with the proposed content, presentation, and timeliness requirements of proposed rule 482, as applicable, if the free writing prospectus includes fee and expense information.[681] As a result, regardless of whether a registered closed-end fund or BDC advertisement uses rule 482 or rule 433, the advertisement would be subject to the same requirements regarding fee and expense information. While the proposed amendments to rules 482, 34b-1, and 433 are similar to requirements that currently apply to a subset of fund advertisements under FINRA rule 2210 (*i.e.*, certain non-money market fund open-end management investment company advertisements that provide performance information), our

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680 Like the current scope of rules 34b-1 and 482, the proposed fee and expense requirements in these rules and in rule 433 would not apply to any quarterly, semi-annual, or annual shareholder report under section 30 of the Investment Company Act. We also propose to provide similar treatment to other reports pursuant to section 13 of section 15(d) of the Exchange Act (*e.g.*, Form 10-K, 10-Q, and 8-K reports filed by BDCs). *See* proposed rule 34b-1(c)(2).

Consistent with the current provision in rule 34b-1, the amendments are designed to provide that shareholder reports and similar periodic reports that might otherwise constitute sales literature or advertisements under the rules are not covered by the proposed amendments to rules 482, 34b-1, and 433 because those reports serve to inform shareholders of recent developments relating to their investment. *See* 1988 Advertising Rules Release, *supra* footnote 88, at n.40 and accompanying text (explaining that the current provision is necessary because of the breadth of the definition of "sales literature"). We believe the proposed expansion of this provision to cover fee and expense information in fund advertisements is warranted because, among other things: (1) investors are likely to understand that the fee and expense information in an annual or other periodic report is only as current as the report; and (2) the proposed content requirements for funds' annual and semi-annual reports are designed to independently recognize the types of fee and expense information a fund shareholder may need.

681 *See* proposed rule 433(c)(3).

proposed amendments would apply more broadly to all investment company advertisements and supplemental sales literature.

In addition, we are proposing to amend rule 156 to address statements and representations about a fund's fees and expenses that could be materially misleading. Specifically, we would provide that, when considering whether a particular statement involving a material fact is or might be misleading, weight should be given to representations about the fees or expenses associated with an investment in the fund that could be misleading because of statements or omissions involving a material fact. As funds are increasingly marketed on the basis of costs, we are concerned that investment companies and intermediaries may in some cases understate or obscure the costs associated with a fund investment. The new proposed factor in rule 156 would provide that representations about the fees or expenses associated with an investment in the fund could be misleading because of statements or omissions involving a material fact, including situations where portrayals of such fees and expenses omit explanations, qualifications, limitations, or other statements necessary or appropriate to make the portrayals not misleading.[682] Consistent with the current framework in rule 156, whether a particular description, representation, illustration, or other statement involving a fund's fees and expenses is materially misleading depends on evaluation of the context in which it is made.[683] In addition, like current rule 156, the proposed amendments would apply to all investment company sales literature.[684] We are not

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682 *See* proposed rule 156(b)(4).

683 *See* rule 156(b).

684 *See* rule 156(c) (defining "sales literature" for purposes of the rule).

proposing to limit the scope of these amendments to a subset of investment companies because our concerns regarding materially misleading statements about fees and expenses are not limited to certain types of investment companies.

The proposed amendments to rule 156 are designed to address concerns that investment company advertisements may present a fund's fees and expenses in a way that materially misleads an investor to believe that the costs associated with a fund investment are lower than the actual investment costs. For example, we understand that it has become increasingly common for funds to market themselves, or attempt to market themselves, as "zero expense" or "no expense" funds based solely on information in their prospectus fee tables and without also disclosing that investors or the fund may incur other costs. However, in some cases a fund's prospectus fee table shows no transaction fees and no ongoing charges only because its adviser, the adviser's affiliates, or others are collecting fees elsewhere from these investors.[685] For instance, an investor in a so-called "zero expense" fund may encounter other investment costs that can effectively reduce the value of his or her investment in a fund. For example, an investor may incur intermediary costs, such as wrap fees that an investor pays to the sponsor of a wrap fee program (which may be the fund's adviser or its affiliates) for investment advice, brokerage services, administrative expenses, or other fees and expenses. As another example, if a fund engages in securities lending, it generally pays certain fees or

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[685] In addition to considering whether statements in fund sales literature about fees and expenses associated with a fund investment are materially misleading, a fund should also consider whether the fee table in its prospectus may be materially misleading unless the fund includes additional material information as may be necessary to make the information and statements expressly required to be in the registration statement, in light of the circumstances under which they are made, not misleading. *See* rule 8b-20 under the Investment Company Act [17 CFR 270.8b-20].

compensation to a securities lending agent (which may be affiliated with the fund's adviser), including through revenue sharing arrangements. Additionally, a fund may appear to be a "zero expense" fund because its adviser is waiving fees or reimbursing expenses for a period of time, but the fund will incur fees and expenses once that arrangement expires. In these and other cases where an investor may encounter other investment costs, we are concerned that, absent appropriate explanations or limitations, investors in these cases may believe incorrectly that there are no expenses associated with investing in the fund.

Similar issues can arise with respect to investment company advertisements that advertise low investment costs, based solely on a fund's prospectus fee table, and that do not reflect or recognize other categories of costs that may, for instance, be supplementing or replacing a more traditional management fee (*e.g.*, intermediary costs, securities lending costs). As another example, an advertisement might be materially misleading if it presents one component of a fund's total operating expenses, such as the fund's management fee, without stating that there are other costs associated with a fund investment or providing the total operating expense figure.

Under certain circumstances, statements in advertisements about a fund's fees and expenses that would be materially misleading on their own may not be misleading if the advertisement includes appropriate explanations, qualifications, limitations, or other statements. To use this approach effectively to avoid materially misleading statements, we believe it would be appropriate for funds to avoid using lengthy and technical disclaimers in small font sizes.

These proposed content-related restrictions in rules 482, 433, and 34b-1 and the proposed amendments to rule 156 are designed to work together to promote balanced and

transparent presentations of fee and expense information in investment company sales literature. We request comment on the proposed amendments to the Commission's investment company advertising rules, including the following:

268. Should the advertising rule amendments apply to all investment companies, as proposed? If not, what types of investment companies should the amendments cover? Are there fee and expense-related issues that are specific to certain types of investment company advertisements that we should take into account?

269. Should we amend rule 482 to require that an advertisement providing fee or expense figures for an investment company also include the maximum sales load (or any other nonrecurring fee) and the total annual expenses without any fee waiver or expense reimbursement arrangement, as proposed? If not, why not? Should we require investment company advertisements to include other fee and expense information, such as the fund's management fee? If so, what information should we require, and why? Should we, for example, require the same fee and expense information as the fund's prospectus fee table (or, in the case of mutual funds and ETFs, the proposed fee summary)?

270. As proposed, should we require that investment company advertisements present the required fee and expense figures using the methods of computation that the fund's Investment Company Act or Securities Act registration statement form prescribes for a prospectus? Should we allow some or all funds to use different computational methods? As another example, should registered closed-end funds that do not maintain an effective registration statement be able to show expense figures from their shareholder reports (*e.g.*, financial highlights expense ratios) rather than computing total annual expenses in the manner required for a prospectus fee table? Why or why not? Are the shareholder report figures,

which represent backward-looking information for the last fiscal year and do not include AFFE, appropriate for advertising materials absent other information? Instead should the required expense figure reflect estimated expenses for the current fiscal year and AFFE (as required in prospectus fee tables)? If we permit different computational methods among investment company advertisements, are there other ways we could promote more consistent fee and expense presentations and facilitate investor comparisons?

271. Beyond the required fee and expense figures, should we require an investment company advertisement to present any other fees or expenses the advertisement may include using the same computational method identified in a Commission form or rule, such as the relevant Investment Company Act or Securities Act registration statement form (*e.g.*, for a prospectus or shareholder report), where available? If so, should this apply to particular fee or expense figures, or should it apply to all fee and expense figures that have identified computations in Commission forms or rules? Do funds already use standardized computational methods in advertisements that include fee information (*e.g.*, for administrative ease or due to antifraud concerns)?

272. Should we require an investment company advertisement to present the required fee and expense figures at least as prominently as any other fee and expense figures, as proposed? If not, why not? Are there circumstances in which it would be appropriate for an advertisement to present a different fee or expense figure more prominently than the required fee and expense figures? Please explain.

273. Beyond the proposed prominence requirements, should we impose other presentation standards for fee and expense information in fund advertisements? For example, should we require advertisements to present fee and expense information in a format that

aligns with the fee table (or fee summary) presentation the fund's registration form requires for prospectuses?

274. Should we require investment company advertisements to use specified terms to describe the required fee and expense figures? For example, should we require advertisements to use the same terms as those prescribed for prospectus fee tables in the fund's registration form? Alternatively, should we require all fund advertisements to use consistent, plain English terminology (such as "ongoing annual fees")?

275. As proposed, should we allow investment company advertisements to include other fee and expense figures, beyond the required fee and expense figures? If not, why not? Alternatively, should we require advertisements that include fee and expense figures to include only figures that appear in the fee table of the fund's prospectus (or, additionally, in the fund's shareholder reports)? If so, how should we address the fact that these presentations do not reflect all potential investment costs, including intermediary costs, transaction costs, and securities lending costs? Should we, for instance, require that a legend or footnote accompany the presentation to explain that it may not reflect all costs associated with an investment?

276. As proposed, should we require an investment company advertisement to include the expected termination date of a fee waiver or expense reimbursement arrangement if the advertisement provides a fund's total annual expenses net of fee waiver or expense reimbursement arrangements? Is there other information we should require about a fee waiver or expense reimbursement arrangement, such as who can terminate the arrangement? Should we permit an advertisement to reflect any fee waiver or expense reimbursement arrangement, or should the arrangement have to meet certain conditions to appear in an advertisement? For

example, should we allow such arrangements to appear in investment company advertisements only if they can appear in a fund's prospectus fee table (*e.g.*, in the case of a registered open-end fund registered on Form N-1A, if the fee waiver or expense reimbursement arrangement would be in place for at least 1 year from the effective date of the fund's registration statement)? As another alternative, because prospectus-related requirements currently vary among different types of funds, should we require an arrangement to be in place for the same period of time for any fund that wishes to disclose its total annual expenses net of a fee waiver or expense reimbursement in an advertisement? If so, what period of time (*e.g.*, 1 year), and how should we measure it (*e.g.*, from the date the advertisement is first submitted for publication, published, or used; from the effective date of the fund's registration statement; or from the date of the fund's most recent annual report)? What are the advantages and disadvantages of any such approach? Are there other conditions that should determine when a fund may include fee waiver or expense reimbursement amounts in investment company advertisements and if so, what should these be?

277. Should we, as proposed, include timeliness requirements in rule 482 for fee and expense information in an investment company advertisement? Should fee and expense information be as of the fund's most recent prospectus or, if the fund no longer has an effective Securities Act registration statement, as of its most recent annual report, as proposed? If not, what baselines should we use to measure the timeliness of fee and expense information? Should the baseline differ among different types of funds, or is there a single baseline that would work for all funds? Should we allow advertisements to include fees and expenses that are more current than the fund's most recent prospectus (or as of the fund's most recent annual report), as proposed? Alternatively, should we require a fund with a

current prospectus to always present the same fees and expenses in its advertisements as those shown in its current prospectus? Should the proposed timeliness requirement apply to any fee and expense information, as proposed, or should it apply more narrowly to particular subsets of fee and expense information (*e.g.*, fee and expense figures)?

278. Should rule 34b-1 include the same fee and expense-related requirements as rule 482, as proposed? If not, why should different fee-related requirements apply to rule 482 advertisements and rule 34b-1 sales literature? What fee and expense-related requirements should rule 34b-1 include?

279. As proposed, given the breadth of the definition of "sales literature" in proposed rule 34b-1, should we amend rule 34b-1 to provide that the proposed fee and expense-related requirements for investment company advertisements in rules 34b-1, 482, and 433 do not apply to shareholder reports under section 30 of the Investment Company Act or to other reports pursuant to section 13 or 15(d) of the Exchange Act?[686] If not, why not? Are there circumstances in which the proposed fee and expense-related content or timeliness requirements should apply to these reports?

280. As proposed, should we amend rule 433 to require registered closed-end fund or BDC free writing prospectuses that include fee and expense information to comply with applicable fee and expense-related requirements in rule 482? If not, why should we treat free writing prospectuses differently from rule 482 advertisements? Are there other amendments we should make to the free writing prospectus rules to more effectively implement the

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[686] *See supra* footnote 680.

proposed requirements? For example, should we amend Securities Act rule 164 to provide that an immaterial or unintentional failure to comply with the proposed fee and expense requirements would not result in a violation of section 5(b)(1) of the Securities Act or the loss of the ability to rely on the free writing prospectus rules, similar to the provision that currently applies to the legend condition in rule 433?[687] If so, why should we treat the substantive requirements regarding fee and expense information in the same manner as the required legend? Are the proposed amendments to rule 34b-1—which apply to any registered investment company or BDC advertisement, pamphlet, circular, form letter, or other sales literature addressed to or intended for distribution to prospective investors—sufficiently broad such that the proposed amendments to rule 433 would not be necessary?

281. Should we amend Securities Act rule 163 to apply fee and expense-related requirements to free writing prospectuses that a registered closed-end fund or BDC that is a well-known seasoned issuer may use before filing a Securities Act registration statement? If so, what requirements should apply to these pre-filing communications? Should we require such a fund to compute the required fee and expense figures in the manner required for a prospectus fee table before the fund has filed a registration statement? What are the advantages and disadvantages of such an approach?

282. Should the content requirements of rule 482, rule 34b-1, and rule 433 apply differently based on the audience for the advertisement (*e.g.*, retail versus institutional investors)?[688] For example, after filing a registration statement, do new funds or existing funds

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[687] *See* rule 164(c) under the Securities Act [17 CFR 230.164(c)].

[688] *See, e.g.*, Investment Adviser Advertisements; Compensation for Solicitations, Investment

that are planning to conduct a new offering of securities need flexibility to rely on rule 482, rule 34b-1, or rule 433 to communicate with certain parties, such as intermediaries or institutional investors, about potential fee or expense amounts to determine the appropriate fee structure for a new fund or security? If so, why would a fund need to rely on rule 482, rule 34b-1, or rule 433 for these purposes instead of the Commission's new rule allowing test-the-water communications with certain institutional investors?[689] If the content requirement should differ based on the audience, how should they differ, and what is the basis for these differences? How should we define the different categories of investors?

283. Should the amendments to rule 482, rule 34b-1, and rule 433 apply equally to new and existing funds? If not, why not? For example, do any of the proposed amendments present particular challenges for a new fund that has filed a registration statement but that does not have an effective registration statement? If so, what are those challenges, and how could we address them?

284. Should we amend rule 156 to address statements and representations about a fund's fees and expenses that could be materially misleading, as proposed? If not, why not? Are the proposed amendments overly broad or overly narrow? What impact would the

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Advisers Act Release No. 5407 (Nov. 4, 2019) [84 FR 67518 (Dec. 10, 2019)], at Section II.A.5; FINRA rule 2210.

689 Securities Act rule 163B allows funds to engage in test-the-waters communications with qualified institutional buyers and institutional accredited investors to determine whether such investors might have an interest in a contemplated registered securities offering. These communications may occur either before or after a fund has filed a Securities Act registration statement. *See* 17 CFR 230.163B; Solicitations of Interest Prior to a Registered Public Offering, Securities Act Release No. 10699 (Sep. 25, 2019) [84 FR 53011 (Oct. 4, 2019)].

proposed amendments have on current investment company marketing practices? Should the proposed amendments be requirements rather than a factor for consideration?

285. Is the proposed factor in rule 156 appropriately tailored to address potential materially misleading statements or representations regarding a fund's fees and expenses?[690] If not, how could we modify the proposed factor to address potential materially misleading statements or representations without negatively affecting a fund's ability to provide the types of fee and expense information that investors want in fund advertisements?

286. Should we provide additional factors an investment company should consider to avoid potentially materially misleading statements regarding a fund's fees and expenses? If so, what factors and why? For instance, are there circumstances in which a fund might include statements in its advertisements that suggest or imply present or future levels of fees and expenses that would not be justified under the circumstances and that might be materially misleading to investors? Could this potentially occur, for example, if a fund that has performance fees or fulcrum fees advertises its current fees and expenses in a manner that suggests or implies that the fund's fees and expenses would remain the same in the future, even though the fund's fee and expenses could be significantly higher if the fund's future performance triggers the performance fee or fulcrum fee? What are the advantages or disadvantages of including a new factor in rule 156 related to statements that suggest or imply present or future levels of fees and expenses that would not be justified under the

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[690] *See* proposed rule 156(b)(4).

circumstances? Would the proposed amendments to rule 156 already appropriately address this concern?

287. Should we provide additional guidance on the types of explanations, qualifications, limitations, or other statements that funds that have zero-expenses (or close to zero expenses) based solely on information in their prospectus fee tables could include in their advertisements to address concerns about materially misleading statements or provide standardized statements for advertisements or prospectuses? For example, should such a statement provide that the fund, its adviser, or its affiliates may receive compensation from the fund that is not disclosed? Should the statement instead provide that there are other costs that will reduce the value of an investment in the fund? Are there other statements that would explain the issue more clearly to investors or that would be more accurate for different types of funds? Would standardized language be appropriate for different types of funds with zero expenses (or close to zero expenses) based solely on information in their prospectus fee tables, or should funds have discretion to tailor the language to address a particular fund's facts and circumstances? Would guidance of the type that this request for comment describes be appropriate for other scenarios related to the presentation of fees and expenses in fund advertisements, and if so, what other types of scenarios should the guidance address?

288. Would the proposed amendments to the investment company advertising rules create unintended incentives or results, such as an incentive for funds to no longer include fee and expense information in fund advertisements? If so, how could we reduce the impact of those unintended incentives or results while still promoting more balanced and transparent presentations of fund fees and expenses in advertisements?

### M. Technical and Conforming Amendments

We are proposing technical and conforming amendments to various rules and forms. As discussed above, our proposal would revise rule 30e-3 to exclude investment companies registered on Form N-1A from the scope of the rule. As a conforming amendment, we propose to revise Form N-1A and rule 498 under the Securities Act to remove legends required by rule 30e-3.[691] Likewise, as another conforming amendment, we propose to withdraw previously adopted amendments to Form N-1A and rule 498 that are scheduled to become effective on January 1, 2021 and that would reference requirements of rule 30e-3.[692] As technical amendments, we also propose to update certain terminology in Form N-1A to reflect modern usage and presentation and to remove references to collect phone calls.

As discussed above, we are also proposing new rule 498B to address shareholders' continued receipt of annual prospectus updates in the years following their initial investment in a fund. As a conforming amendment, we propose to amend 17 CFR 200.800 to display control numbers assigned to information collection requirements for rule 498B by the Office of Management and Budget pursuant to the Paperwork Reduction Act. As discussed further below, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.[693]

Our proposal would also simplify the fee table currently included in Form N-1A and move the full fee table to a different location in Form N-1A.[694] To ensure that forms cross-

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691 *See* Item 1(a)(5) and Item 27(d)(7) of Form N-1A; rule 498(b)(1)(vii).

692 *See* Rule 30e-3 Adopting Release, *supra* footnote 14, at amendatory instructions 5, 6, and 16.

693 *See infra* Section IV.

694 *Compare* proposed Item 3 (Risk/Return Summary: Fee Summary) *with* proposed Item 8A (Fee

referencing the current fee table in Form N-1A continue to reference that same table, we propose to update cross-references in Schedule 14A and Form N-14.[695]

Finally, as technical amendments, we also propose to update the current SAI requirement to provide the age and length of service for a fund's officers and directors to allow funds to instead disclose for each officer and director the birth year and the year their service began.[696] We also are proposing a similar instruction for the length of service for portfolio managers that must be disclosed in the prospectus to permit a fund to disclose the year the portfolio manager's service began.[697] We believe that permitting a fund to use a static date rather than updating this information annually will reduce a burden on funds that can arise in updating a previously disclosed age, for example, while providing investors equivalent information. We also have observed that some funds already disclose each officer and director's year of birth and the date the services of the officers, directors and portfolio managers began.

We request comment generally on these technical and conforming amendments, and specifically on the following issues:

269. Are these technical and conforming amendments appropriate in light of the other changes contemplated by our proposal?

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Table).

695 *See* proposed Schedule 14A [14a-101 under the Securities Act] and Form N-14 [17 CFR 239.23].

696 *See* proposed Item 17(a)(1) of Form N-1A.

697 *See* proposed Item 5(b) of Form N-1A.

270. Are there any additional technical or conforming amendments that should be made in order to fully implement the proposed changes in this rulemaking? For example, should we update cross-references in Forms N-4 and N-6 to the current fee table in Form N-1A (which would be revised under our proposal to become a summary table), even though those cross-references are with regard to the line-item "Total Annual Fund Operating Expenses" which would not be changed under our proposal and thus would be identical in both the summary fee table and the full fee table? If so, why?

271. Are there any proposed technical or conforming amendments that we should not make, or should modify? For example, should forms cross-referencing the current fee table in Form N-1A continue to reference that same fee table, even though that fee table would be revised under our proposal to become a summary fee table? If so, why?

**N. Compliance Date**

We propose to provide a transition period after the effective date of the amendments to give funds sufficient time to adjust their prospectus and shareholder report disclosure practices and to provide sufficient time to comply with the new fee and expense requirements for investment company advertisements, as described below. We are proposing generally a compliance date of 18 months after the amendments' effective date. Based on our experience, we believe the proposed compliance dates would provide an appropriate amount of time for funds to comply with the proposed rules.[698]

- *Shareholder reports and related requirements.* All shareholder reports for funds registered on Form N-1A would have to comply with Item 27A of Form N-1A if they

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[698] For example, the proposed compliance dates are generally consistent with the compliance

are transmitted to shareholders 18 months or more after the effective date. These funds also would have to comply with the amendments to rule 30e-1 and Form N-CSR no later than 18 months after the effective date by, among other things, meeting the website availability requirements for the new Form N-CSR items.

- *Rule 30e-*3 *and related amendments.* We propose that the amendments to the scope of rule 30e-3, and conforming amendments to Form N-1A and rule 498 to remove legends required by rule 30e-3, would be effective 18 months after final rules are adopted to provide time for funds relying on rule 30e-3 to transition to the proposed disclosure framework.
- *Rule 498B.* Funds could rely on rule 498B to satisfy prospectus delivery requirements for existing shareholders beginning on the effective date of the rule, provided the fund is also in compliance with the amendments to Item 27A of Form N-1A, rule 30e-1, and Form N-CSR.
- *Amended prospectus disclosure*. We propose that funds would have 18 months after the effective date to comply with the amendments to prospectus disclosure in Form N-1A, including the fee summary and revised principal risk disclosure.
- *Amended advertising rules*. We propose to provide 18 months after the effective date for investment company advertisements to comply with the amendments to rules 482, 433, and 34b-1. We do not propose to provide an additional compliance period for the amendments to rule 156 after the amended rule is effective.

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dates the Commission has provided for similar disclosure-based amendments. *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27, at section II.G.

We request comment on the proposed compliance and effective dates, including the following:

272. Are the proposed compliance dates appropriate? If not, why not? Is a longer or shorter period necessary to allow registrants to comply with one or more of these particular amendments? If so, which proposed amendments, and what would be an appropriate compliance date?

273. Is the proposed effective date for the rule 30e-3 amendments appropriate? Should the effective date of the rule 30e-3 amendments align with the proposed compliance date for the other shareholder report-related amendments, as proposed? If not, why not?

274. Should we allow funds to begin to rely on proposed rule 498B as soon as the rule is effective, provided they comply with the amendments to Item 27A of Form N-1A, rule 30e-1, and Form N-CSR? If not, why not?

## III. ECONOMIC ANALYSIS

### O. Introduction

We are mindful of the costs imposed by, and the benefits obtained from, our rules. Section 3(f) of the Exchange Act, section 2(b) of the Securities Act, and section 2(c) of the Investment Company Act state that when the Commission is engaging in rulemaking under such titles and is required to consider or determine whether the action is necessary or appropriate in (or, with respect to the Investment Company Act, consistent with) the public interest, the Commission shall consider whether the action will promote efficiency, competition, and capital formation, in addition to the protection of investors. Further, section 23(a)(2) of the Exchange Act requires the Commission to consider, among other matters, the impact such rules would have on competition and states that the Commission shall not adopt any rule that would impose a burden on competition not necessary or appropriate in

furtherance of the purposes of the Exchange Act. The following analysis considers, in detail, the potential economic effects that may result from the proposed rule and amendments, including the benefits and costs to investors and other market participants as well as the broader implications of the proposal for efficiency, competition, and capital formation.

The proposed rule would affect the provision of information by funds to investors, including existing fund shareholders and new or prospective fund investors.[699] For example, under the proposal funds would provide existing shareholders with more concise and visually engaging shareholder reports that highlight key information, including fund expenses, performance, and holdings.[700] The proposed rule would also affect how funds transmit shareholder reports. Under the proposal, funds would not be permitted to deliver paper notices regarding the online availability of shareholder reports in reliance on rule 30e-3. Instead, funds would deliver the more concise shareholder report in full.[701] Through a layered disclosure framework, additional information that may be of interest to market professionals and some shareholders, such as fund financial statements, would be available online and delivered in paper or electronic format upon request, free of charge.[702] Further, instead of delivering annual prospectus updates to existing shareholders, funds would have the option to

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699 The term "fund' in this proposal includes all Form N-1A filers, except where otherwise indicated.

700 *See supra* Sections II.B and II.C.

701 *See supra* Section II.G.

702 *See supra* Section II.D.

notify shareholders promptly of certain material changes to the fund, provided the prospectus is available online and delivered upon request, free of charge.[703]

In addition to amendments that would primarily affect existing fund shareholders, the proposed rule would amend prospectus disclosure regarding fees and expenses and principal risk, which we expect to primarily affect new or prospective investors in a fund.[704] Finally, to improve fee and expense information that is available to investors more generally, we propose to amend the investment company advertising rules to require that investors receive more transparent and consistent fee and expense information.[705]

We expect the proposed rule to benefit investors by permitting them to make more efficient use of their time and attention, and by facilitating informed investment decisions and choice among financial products. We expect some funds to experience lower costs of delivering materials under the proposal, which may be passed on to investors as a further benefit of the proposal, while other funds may experience increased delivery costs that would be a cost of the proposal to the shareholders of those funds.

### P. Economic Baseline and Affected Parties

#### 1. Descriptive Industry Statistics

The proposed rule would affect funds and investors who receive fund disclosure under the current rules.[706] Approximately 101.6 million individuals own shares of registered

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703 *See supra* Section II.F.

704 *See supra* Section II.H.

705 *See supra* Section II.I.

706 The vast majority (89%) of mutual fund shares are estimated to be held through retail accounts. *See* 2019 ICI Fact Book, *available at* https://www.ici.org/pdf/2019_factbook.pdf. Based on staff analysis of Form 13F data, the mean institutional holding is estimated to be

investment companies, representing 57.2 million (or 44.8%) of U.S. households. An estimated 99.5 million individuals own shares of mutual funds in particular, representing 56.0 million (or 43.9%) of U.S. households.[707] The assets of all registered investment companies exceeded $21 trillion at year-end 2018, having grown from about $5.8 trillion at the end of 1998.[708] Based on staff analysis of Form N-CEN filings, we estimate that, as of March 2020, the number of funds that could be affected by the proposed amendments to disclosure and delivery requirements for prospectuses and shareholder reports is 12,410, including 10,310 mutual funds and 2,100 ETFs that register on Form N-1A.[709] As of March 2020, the 10,310 mutual funds (*i.e.*, series of trusts registered on Form N-1A) had average total net assets of $25 trillion and 33,785 authorized share classes.[710] The 2,100 ETFs (*i.e.*, series, or classes of series, of trusts registered on Form N-1A) had average total net assets of $3.2 trillion as of March 2020.

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approximately 48% for exchange-traded funds. We calculated "institutional holding" as the sum of shares held by institutions (as reported on Form 13F filings) divided by shares outstanding (as reported in CRSP). Year-end 2018 Form 13F filings were used to estimate institutional ownership. We note that there are long-standing questions around the reliability of data obtained from Form 13F filings. *See* Covered Investment Fund Research Reports, Investment Company Act Release No. 33311 (Nov. 30, 2018) [83 FR 64180, 64199 (Dec. 13, 2018)], at n.223; *see also* Reporting Threshold for Institutional Investment Managers, Exchange Act Release No. 89290 (July 10, 2020) [85 FR 46016] (July 31, 2020), at n.63 (proposing certain technical amendments to Form 13F that the Commission believes may reduce filer mistakes and data inaccuracies).

707 *See* 2019 ICI Fact Book, *supra* footnote 706. Among mutual fund-owning households, 63% held funds outside employer-sponsored retirement accounts, with 20% owning funds only outside such plans.

708 See id.

709 These estimates are based on staff analysis of Form N-CEN filings received through March 2020 and Bloomberg data.

710 The estimate of the number of authorized share classes is based on responses to Form N-CEN, Item C.2.a., and includes non-ETF share classes of multi-class ETFs.

Funds may invest in other funds under section 12(d)(1) of the Act and the rules thereunder.[711] We estimate that approximately 30% of funds invest in such acquired funds.[712] Most acquiring funds invest 10% or less of their total assets in acquired funds (excluding money market funds).[713] For funds with more than 10% of their total assets in acquired funds, the majority invest more than 20% of their total assets in the acquired funds. We estimate that approximately 32% of funds that invest in acquired funds invest more than 10% of their total assets in acquired funds, and that approximately 28% invest more than 20% of their total assets in acquired funds. Thus, a large share (88%) of the funds with more than 10% invested have more than 20% of their total assets invested in acquired funds.[714]

The scope of the proposed advertising rule amendments is broader than that of the other elements of the proposal. The advertising rule amendments would apply to other registered investment companies and to BDCs, in addition to mutual funds and ETFs. As of March 2020, there were 1,388 other registered investment companies, including 665 registered closed-end funds, 14 funds that could file registration statements or amendments to

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711 15 U.S.C. 80a-12(d)(1); *see also* 17 CFR 270.12d1-1 through 270.12d1-3.

712 *See* Fund of Funds Proposing Release, *supra* footnote 608, at paragraph accompanying n.242.

713 This analysis excludes money market fund holdings from acquired fund investments because the proposed amendments to prospectus AFFE disclosure exclude money market fund holdings from the calculation of a fund's investments in acquired funds. Thus, for purposes of this discussion, an "acquired fund" does not include a money market fund. *See also supra* footnote 619. The estimates of acquired fund holdings are based on staff's analysis of Form N-PORT filings received through early June 2020.

714 0.28 = 0.32 x 0.88. We further estimate that approximately 4% of acquiring funds invest between 10% and 20% of their total assets in acquired funds (0.04=0.32-0.28).

registration statements on Form N-3, and 709 UITs.[715] As of March 2020, there were 87 BDCs with $139 billion in total assets.[716]

The proposal would also affect financial intermediaries and other third parties that are involved in the distribution and use of the prospectus and shareholder reports, such as broker-dealers and third-party information providers. We understand that most fund investors are not direct shareholders of record, but instead engage an investment professional and hold their fund investments as beneficial owners through accounts with intermediaries such as broker-dealers.[717] As a result, intermediaries commonly distribute fund materials to beneficial owners, including shareholder reports and annual prospectus updates. In the case of broker-dealers, self-regulatory organization ("SRO") rules provide that broker-dealer member firms are required to distribute annual reports, as well as "interim reports," to beneficial owners on behalf of issuers, so long as an issuer (*i.e.*, the fund) provides satisfactory assurance that the broker-dealer will be reimbursed for expenses (as defined in SRO rules) incurred by the broker-dealer for distributing the materials.[718] Based on information reported on Form BD, we

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715 We estimate that all registered investment companies would be affected by the advertising rule amendments. Based on staff analysis of Form N-CEN filings received through March 2020, this includes all mutual funds and ETFs; 665 closed-end funds registered on Form N-2, with average total net assets of $335 billion; 14 variable annuity separate accounts registered as management investment companies on Form N-3, with total assets of $234 billion; and 709 UITs, with total assets of $2.0 trillion (including 5 ETFs that are registered as UITs with total assets of $338 billion).

716 To estimate the number of BDCs, we use data from Form 10-K and Form 10-Q filings from the first quarter of 2020. Our estimates exclude BDCs that may be delinquent, wholly owned subsidiaries of other BDCs, and BDCs in master-feeder structures.

717 By one estimate, approximately 75% of accounts are held through brokers and other intermediaries, excluding positions held in employer-sponsored plans. *See* Rule 30e-3 Adopting Release, *supra* footnote 14, at n.275.

718 *See* NYSE rule 465(2); NYSE rules 451(a)(1) and (2); FINRA rule 2251(e)(1)(C); FINRA rule

estimate that 2,016 broker-dealers sell registered investment companies' shares and may deliver prospectuses or shareholder reports that would be affected by the proposal.

### 2. Fund Prospectuses

The prospectus is the main selling document of the fund and is designed to provide forward-looking information and certain historical information to new shareholders and prospective shareholders with no existing investment in the fund. Funds deliver a prospectus to new shareholders in connection with the initial purchase, and prospectuses are designed to inform investment decisions and help investors compare funds. Funds typically update their prospectuses annually within 120 days of fiscal year-end.[719] Funds also may supplement or "sticker" their prospectuses to update the disclosure at other times during the year when material or other changes occur.[720]

Funds (or intermediaries) are generally required to deliver a fund prospectus to an investor in connection with a purchase of fund shares. Rule 498 enables funds to deliver the summary prospectus rather than the statutory prospectus if they meet certain conditions.[721] We estimate that 93 percent of funds deliver a summary prospectus in reliance on rule 498, and the remaining seven percent of funds deliver the statutory prospectus. According to one academic study, the average summary prospectus is 6.77 pages.[722] Based on a review of fund

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2251.01.

[719] *See supra* footnote 20 and accompanying text.

[720] *See supra* footnote 13 and accompanying text.

[721] Rule 498 has been in place since 2009. Funds delivered the statutory prospectus to all investors before that time.

[722] *See* Anne M. Tucker & Yusen Xia, *Investing in the Dark: Investment Company Disclosure Qualities, Content & Compliance* (SSRN, Sept. 1, 2019) ("Tucker and Xia"), *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3436952 (estimating that, in 2018, the

websites, the staff has found similar page lengths in summary prospectuses. In a sample from 2020, for example, the staff found that summary prospectus page lengths varied around an average of 8 pages at the mean and median, and that summary prospectuses were shorter than statutory prospectuses, which varied in length around a mean of 128 pages and median of 75 pages. We estimate that currently the average summary prospectus length is 8 pages and the average statutory prospectus length is 128 pages.

In addition to sending prospectuses to new investors, funds typically send an annual prospectus update to ongoing shareholders each year, and may deliver prospectus stickers to shareholders to update the disclosure at other times.[723] The form (*i.e.*, summary prospectus or statutory prospectus) and length of the annual prospectus update a fund delivers to ongoing shareholders is the same as that of the prospectus it delivers to new investors. The annual prospectus update provides continuing shareholders with access to information about material fund changes, such as in the fund's fees or principal investment strategy.[724] The disclosure format of the prospectus, however, does not highlight or explain the material changes. We estimate that funds, on average, deliver one annual prospectus update each year and one prospectus sticker every other year to disclose material changes to the fund.[725] Funds also are

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summary prospectus was 6.77 pages, based on estimated page number lengths from mean and median counts by year).

723 *See supra* footnote 11 and accompanying text.

724 Funds are required to update the prospectus at or before the time their financials are 16 months old under section 10(a)(3) of the Securities Act. In addition, Investment Company Act rule 8b-16(a) requires funds to amend their Investment Company Act registration statements within 120 days after the close of each fiscal year.

725 This estimate is based on the average number of summary prospectuses funds filed in 2018 and 2019, excluding multiple summary prospectuses filed on the same day and adjusted to recognize that funds may not deliver prospectus stickers to notify shareholders of certain

required to file their prospectuses on EDGAR. In addition, funds often provide their prospectuses on their websites. The extent to which funds currently publish prospectuses to their public websites is influenced by Commission rules. If a fund delivers a summary prospectus under rule 498 (which an estimated 93 percent of funds do), then its summary and statutory prospectuses and its SAI must be available on the website identified at the beginning of the summary prospectus.[726] As for the SAI, in addition to its typical availability online, funds must file it on EDGAR. Funds generally do not deliver SAIs to investors (although a fund must deliver it to an investor on request).

Among other things, prospectuses include information about a fund's investment objective, principal investment strategy, fees and expenses, principal risks, performance, investment adviser, and portfolio managers. Funds must provide certain of this information—including investment objectives, fees and expenses, principal investment strategies, principal risks, and performance—in a structured data format.[727] With respect to principal risk disclosure in particular, the length of this disclosure has been growing over time, and funds sometimes order their risks alphabetically instead of by importance. One academic study found that fund risk disclosure in the summary prospectus had nearly doubled in length between 2010 and 2018.[728] Based on staff analysis, the median number of principal risks

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changes. *See, e.g.*, ICI Comment Letter II; Fidelity Comment Letter. This estimate is an average, and funds may deliver more or fewer prospectus-related disclosures to shareholders in a given year.

726 *See supra* footnote 12.

727 *See* General Instruction C.3(g) of current Form N-1A.

728 *See* Tucker and Xia, *supra* footnote 722, at 27 and 28.

listed in fund prospectuses grew from 11 in 2016 to 13 in 2018, and almost half of the principal risk disclosures generally were in alphabetical order.[729]

Funds disclose their fees and expenses in the prospectus fee table. Some fees and expenses are directly attributed to the fund's operations, while others are indirect. For example, some fees and expenses are attributable to the fund only through its investments in other funds). These indirect fund expenses generally appear in a separate AFFE line item in the fee table.[730] Currently, regardless of the size of a fund's investments in the acquired funds, AFFE is a component of the line items that, summed together, produce the fund's bottom-line annual fund operating expenses in its fee table. Differences in the operating expense disclosures of different funds may thus reflect differences in their operations or differences in the operations of their acquired funds.

### 3. Fund Shareholder Reports

Funds provide information about their past operations and activities to investors through periodic shareholder reports. Funds send shareholder reports to ongoing shareholders twice-annually. Thus, shareholders receive both a semi-annual and an annual report from the fund. Shareholder reports provide backward-looking information about a fund's performance (in the case of an annual report), expenses, holdings, and other matters (*e.g.*, statements about the fund's liquidity management program, the basis for approval of an investment advisory

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729 These figures are based on staff analysis of a sample of 485BPOS, 485APOS, and 497 filings on EDGAR in XBRL format. Analysis of whether funds tend to list principal risks in alphabetical order is based on normalized inversion counts. We recognize that the length and the ordering of risks varies across funds. The average number of principal risks for funds in this sample is 12.7 in 2016 and 13.9 in 2018.

730 *See supra* Section II.H.1.g.

contract, and the availability of additional information about the fund). These reports also include financial statements, which include audited financials in the annual report. Shareholder reports can be quite long. The average length of a shareholder report exceeds 100 pages. Based on staff analysis of shareholder reports available on fund websites, we estimate that the average annual report length is 134 pages and the average semi-annual report length is 116 pages, or 86% of the average length of a fund's annual report.[731] The length and complexity of these materials can make them difficult for some shareholders to use and understand.

Funds must deliver the shareholder reports to shareholders. Funds also must file the shareholder reports on EDGAR on Form N-CSR. In addition, funds often provide their shareholder reports on their websites. The extent to which funds currently publish shareholder reports on public websites is influenced by Commission rules. All funds that rely on rule 498 to deliver summary prospectuses are required to make their shareholder reports available online at the website address identified at the beginning of the summary prospectus; as a result, we estimate that at least 93% of funds currently provide their shareholder reports on websites.[732] Form N-CSR filings include information other than shareholder reports. This

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[731] According to one estimate, the annual report was 114 pages long on average in 2016. *See* Comment Letter of Investment Company Institute (Mar. 14, 2016) on File No. S7-08-15, at n.49, *available at* https://www.sec.gov/comments/s7-08-15/s70815-581.pdf.

[732] In addition, a fund relying on rule 30e-3 would be required to make its shareholder reports publicly accessible on a website. In the case of rule 30e-3, the shareholder report must be available at the website address specified in the notice the fund would send to shareholders under the rule. Funds that rely on rule 30e-3 would also be required to make their complete portfolio holdings for each quarter available online. To the extent that any funds not currently relying on rule 498 to deliver summary prospectuses start to rely on rule 30e-3 beginning as early as January 1, 2021, the number of funds providing their shareholder reports on websites would be greater than 93%.

information is filed on EDGAR but is not required to be delivered or otherwise available online.

### 4. Delivery of Fund Prospectuses and Shareholder Reports

Under Commission rules and guidance, delivery of fund prospectuses and shareholder reports occurs by paper or email, depending on the investor's expressed preference. The Commission has provided guidance permitting electronic delivery of required disclosure materials under certain circumstances.[733] Under this guidance, funds can transmit shareholder reports, prospectuses, or other materials electronically in lieu of paper delivery if they satisfy certain conditions relating to investor notice, access, and evidence of delivery. Funds (or intermediaries) relying on this guidance typically obtain an investor's informed consent to electronic delivery to satisfy the "evidence of delivery" condition. Fund investors that have elected electronic delivery typically receive an email that contains a link to where the materials are available online. The proportion of shareholders who elect to receive fund disclosure by email varies among funds. By one estimate, the average enrollment rate for electronic delivery is 19.35% for direct-held positions (*i.e.*, shares purchased directly through an account with the fund) and 55% for beneficial positions (*i.e.*, shares purchased through an account with an intermediary).[734]

With respect to shareholder reports, there is also an alternative means of delivery. On June 5, 2018, the Commission adopted rule 30e-3 to provide an optional method for satisfying obligations to transmit shareholder reports by making them accessible online. Starting in

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[733] *See supra* footnote 21.

[734] *See* Putnam Comment Letter.

2021, under rule 30e-3, fund shareholders who would otherwise receive shareholder reports in paper may instead receive a short paper notice that a semi-annual or annual report is available online. Rule 30e-3 does not modify the delivery method for shareholders who request to receive reports in paper or elect to receive reports electronically.[735] Funds that intend to rely on rule 30e-3 before 2022 must provide notice to shareholders in their prospectuses and shareholder reports. Under rule 30e-3, what shareholders see when they access the report does not vary in substance or length according to whether they view the report online or request a paper copy of the report.[736] Yet delivery of the report tends to be less costly for funds that choose to rely on rule 30e-3 than funds that do not choose to rely on rule 30e-3 because printing and mailing costs are lower for a short paper notice as opposed to a full-length report.[737]

We estimate that 86 percent of funds registered on Form N-1A plan to rely on rule 30e-3 before 2022.[738] We understand that the number could increase or decrease over time,

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[735] Rule 30e-3 requires the fund to deliver shareholder reports in paper to those shareholders who expressly opt in to paper delivery. For funds that rely on rule 30e-3, other shareholders who have not consented to electronic delivery would receive a link to the shareholder report in a paper notice from the fund.

[736] *See supra* Section III.B.3.

[737] Shareholders of funds that rely on rule 30e-3 may request paper copies of the full report, which may reduce the cost savings associated with rule 30e-3 if many shareholders make these requests. We previously estimated that registered investment companies relying on rule 30e-3 would incur approximately $70.6 million per year to print and mail notices and approximately $5.7 million per year to print and mail shareholder reports upon request. *See* Rule 30e-3 Adopting Release, *supra* footnote 14, at nn.414 and 415 and accompanying text.

[738] Our estimate reflects the percent of open-end funds registered on Form N-1A that included a statement notifying investors of their intent to rely on rule 30e-3 in annual or semi-annual reports filed on Form N-CSR in 2019. The estimate excludes any funds that may plan to rely on rule 30e-3 after the rule's extended transition period ends on January 1, 2022 and, thus, are not required to provide this notice to investors. In a June 2019 survey, ICI found that 97 percent of member funds responding to the survey planned to rely on rule 30e-3. *See* ICI

depending on fund and investor experience with the new practice. The Commission previously estimated aggregated costs of $11 million during the transition period for funds to add statements to their shareholder reports and prospectuses notifying shareholders of the fund's intent to rely on rule 30e-3. This includes costs of approximately $7.1 million in the first year and approximately $4.3 million in the second year.[739] In addition, funds may have incurred costs in anticipation of relying on rule 30e-3 that include costs of tracking how many investors request continued delivery by paper mail under rule 30e-3. This is because rule 30e-3 allows shareholders to elect—at any time—to receive all future reports in paper, or request particular reports in paper on an *ad hoc* basis.

In adopting rule 30e-3, the Commission understood that it would reduce the allocation of resources to printing and mailing of reports, depending on how many funds choose to rely on the rule. At that time, the Commission estimated that annual printing and mailing costs (inclusive of processing fees) for shareholder reports were approximately $20,707.33 per fund absent rule 30e-3.[740] Based on the current number of funds, the aggregate costs would be approximately $257.0 million.[741] At the time of adoption, the Commission estimated that 90 percent of funds would choose to rely on rule 30e-3. Based on the current number of funds, this would result in reduced printing and mailing costs for funds of approximately $231.3

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739 *See* Rule 30e-3 Adopting Release, *supra* footnote 14, at nn.419 and 420 and accompanying text (estimating costs of $7,144,872 associated with amendments to rule 498 and Form N-1A in the first year and costs of $4,286,980 associated with amendments to rule 498 and Form N-1A in the second year).

740 *See id.* at n.353.

741 $20,707.33 x 12,410 funds = $256,977,965 = $257.0 million.

million.[742] Under our current estimate of the proportion of funds relying on rule 30e-3, which is 86%, the annual savings in printing and mailing costs for funds will decline from approximately $231.3 million to $221.0 million.[743] The estimated aggregate printing and mailing costs for funds' shareholder reports in 2021 depends on whether and how fully funds achieve the projected savings for rule 30e-1 by that year. We expect the aggregate printing and mailing costs (inclusive of processing fees) to range between $36.0 million and $257.0 million in 2021, without the proposal, depending on how fully funds have realized the projected savings from reliance on rule 30e-3.[744] For example, we would expect the costs to be closer to the lower end of the range if most or all of the 86% of funds are able to rely on the rule to transmit annual and semi-annual reports in 2021, while we would expect the costs to be closer to the higher end of the range if many of these funds are still subject to rule 30e-3's transition period for some or all of 2021.[745]

A summary of the delivery scenarios that would occur without the proposal, along with typical delivery outcomes, appears in table 7 below. As indicated, the baseline delivery outcomes vary across funds and shareholders, according to their expressed preferences and circumstances:

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742 *See* Rule 30e-3 Adopting Release, *supra* footnote 14, at n.372 and accompanying text (using an approach to estimate gross aggregate annual savings of printing and mailing costs as the aggregate annual printing and mailing costs multiplied by the percentage of funds expected to rely on rule 30e-3). $256,977,965 x 90% = $231.3 million.

743 $256,977,965 x 86% = $221,001,050.

744 $256,977,965 - $221,001,050 = $35,976,915.

745 *See* rule 30e-3(i) (generally requiring funds to include required statements about rule 30e-3 in their prospectuses and shareholder reports for a period of two years prior to relying on the rule).

**Table 7. Delivery scenarios without the proposal (baseline).**

| **Table 7.1 – Semi-annual report delivery, baseline – by fund and shareholder choice** | | | |
|---|---|---|---|
| **Fund relies on rule 30e-3?** | **Shareholder requests electronic delivery** | **Shareholder requests paper delivery** | **Shareholder makes no delivery election** |
| ***Yes*** | Email (with link to 116 page report) | Paper mail (116 page) report | Paper notice (1 page) with link to 116 page report |
| ***No*** | Email (with link to 116 page report) | N/A[1] | Paper mail (116 page) report |

| **Table 7.2 – Annual report delivery, baseline – by fund and shareholder choice** | | | |
|---|---|---|---|
| **Fund relies on rule 30e-3?** | **Shareholder requests electronic delivery** | **Shareholder requests paper delivery** | **Shareholder makes no delivery election** |
| ***Yes*** | Email (with link to 134 page report) | Paper mail (134 page) report | Paper notice (1 page) with link to 134 page report |
| ***No*** | Email (with link to 134 page report) | N/A[1] | Paper mail (134 page) report |

| **Table 7.3 – Annual prospectus update delivery, baseline – by fund and shareholder choice[2]** | | |
|---|---|---|
| | **Shareholder requests electronic delivery?** | |
| **Fund uses summary prospectus (rule 498)?** | ***Yes*** | ***No*** |
| ***Yes*** | Email with link to 8 page summary prospectus update, annual | Paper mail (8 page) summary prospectus update, annual |
| ***No*** | Email with link to 128 page statutory prospectus update, annual | Paper mail (128 page) of statutory prospectus update, annual |

| **Table 7.4 – Other prospectus update delivery, baseline – by fund and shareholder choice** | | | |
|---|---|---|---|
| | | **Shareholder requests electronic delivery?** | |
| **Fund uses summary prospectus (rule 498)?** | | ***Yes*** | ***No*** |
| ***Yes*** | Email with link to summary prospectus update or sticker (sometimes may be combined with shareholder report delivery) | Paper mail of summary prospectus update or sticker (sometimes may be combined with shareholder report delivery) | |
| ***No*** | Email with link to statutory prospectus update or sticker (sometimes may be combined with shareholder report delivery) | Paper mail of statutory prospectus update or sticker (sometimes may be combined with shareholder report delivery) | |

Notes:
1. "N/A" reflects the fact that, if a fund does not rely on rule 30e-3, paper delivery of the full report is the default delivery mechanism. If the fund relies on rule 30e-3, however, delivery of a paper notice with a link to the online location of the shareholder report becomes the default, as the table indicates.
2. This table assumes that the fund delivers annual prospectus updates to all shareholders because we understand the majority of funds follow this practice. If a fund instead delivered prospectuses only to those shareholders who

purchase additional shares of the fund during the year, receipt of a prospectus may not be an annual occurrence for some shareholders.

### 5. Investor Use of Fund Disclosure

Based on responses to the Fund Investor Experience RFC and results of prior investor testing and surveys,[746] the Commission understands that investors find that the information currently provided to them is overly long and difficult to understand. Investors have expressed concern about the length of the materials.[747] Many investors have also suggested that fund disclosure is too complex or technical.[748] For example, one survey reported that 67% of surveyed investors found shareholder reports difficult to understand, and another found the number to be higher, 72%.[749] Some investor surveys suggest that many investors review little, if any, of funds' shareholder reports.[750]

In addition, some investors have expressed concern about the fee information that funds disclose.[751] Many investors responding to the Fund Investor Experience RFC expressed the view that funds do not clearly disclose their fees and expenses. This may indicate that they do not make effective use of the fee information that is provided under the current

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746 *See supra* Section I.B.

747 *See, e.g.*, Rojas Comment Letter ("I receive too much information. It is too long and too complex.); Franco Comment Letter; Nevin Comment Letter; Woods Comment Letter; David Comment Letter (stating that fund disclosures are too overwhelming to be useful).

748 *See supra* footnotes 32 through 36 and accompanying text.

749 *See* Broadridge Comment Letter I (stating that 72% of surveyed investors that review mutual fund or ETF disclosures do not find them easy to understand); ICI Investor Testing (stating that 67% of surveyed mutual fund investors who recalled receiving fund shareholder reports indicated that the reports are difficult to understand).

750 *See supra* footnote 40 and accompanying text.

751 *See supra* Section I.B.2.

requirements. Several of these investors expressed support for simplifying fee presentations by, for example, reducing the number of line items in the prospectus fee table or providing only one "bottom-line" number showing the fees associated with an investment in the fund. Some commenters suggested that funds should disclose fees in terms of dollars rather than percentages to make the disclosure more understandable to investors.[752] Some commenters have suggested that disclosing AFFE in the fee table may confuse investors because the fee table does not reflect similar indirect expenses of the fund and combining the fund's operating expenses with indirect AFFE does not align with the fund's financial statements.[753]

Investors also indicate that prospectus risk disclosures are difficult to understand,[754] and this may mean that such disclosures currently are difficult to incorporate into investment decisions. For example, many investors responding to the Fund Investor Experience RFC suggested that disclosure about a fund's risks is too long. Some investors suggested that funds should order risks by importance or otherwise better focus their risk disclosures.

#### 6. Fund Advertisements

The Commission rules on investment company advertising apply to all registered investment companies and BDCs. These rules largely focus on how certain types of funds present their performance in advertisements. This focus reflects the Commission's acknowledgement that investors use information about performance to choose among funds and concern that, absent requirements to standardize how funds present performance in

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752 *See supra* footnote 63 and accompanying text.

753 *See, e.g.*, Chapman and Cutler Fund of Funds Comment Letter; Invesco Fund of Funds Comment Letter.

754 *See supra* Section I.B.2.

advertisements, investors may be susceptible to basing their investment decisions on information that is inaccurate or creates an inaccurate impression of the fund's performance.[755]

In recent years, many funds have reduced their fees they impose on investors. The staff has observed that some funds have highlighted low fees in their advertising materials as a salient factor for investors to consider when choosing among funds. For example, we understand that some funds are advertised as "zero expense" or "no expense" funds based on the information included in their prospectus fee tables, potentially leading investors to believe these funds impose no costs even though the adviser or an affiliate may be collecting fees (*e.g.* securities lending costs) from the investor's fund investment. As a result, investors may be more likely today to consider a fund's fees when making their investment choices than they were when the Commission last updated the investment company advertising rules.[756] Also as a result, funds may face increased incentives to understate or obscure fees in their advertising materials.

Advertising can reduce information asymmetries with implications for investor search costs and effects on investor choices and investment outcomes. Lower search costs can lead to

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755 *See* Rule 156 Adopting Release, *supra* footnote 662; Investment Company Sales Literature Interpretive Rule, Investment Company Act Release No. 10621 (Mar. 8, 1979) [44 FR 16935 (Mar. 20, 1979)], at paragraph accompanying n.5.

756 *See, e.g.*, Michael Goldstein, *Issues Facing the U.S. Money Management Industry: Presentation to SEC Asset Management Advisory Committee*, at 27-28, *available at* https://www.sec.gov/files/Empirical-Research-Issues-Facing-US-MM.pdf; Ben Phillips, *Remarks and Discussion: U.S. Securities and Exchange Commission, Asset Management Advisory Committee*, at 2, 8, and 15 (Jan. 14, 2020), *available at* https://www.sec.gov/files/BenPhillips-CaseyQuirk-Deloitte.pdf.

more efficient matches between investor preferences and choices. Advertising can also make investors worse off, however.[757] It depends on the abilities of investors to make effective use of the information that the advertising conveys. On the one hand, a fund advertisement can convey information that reduces information asymmetry between the fund and the investor. The effects can be lower search costs for the investor and a lesser chance of a mismatch between the investor's preferences and the fund that is ultimately chosen. However, investors may respond to advertising in ways that are not consistent with their own interests. The effectiveness of the advertising in lowering search costs and improving match efficiency depends on the investor's ability to understand the information. For example, a positive relation between funds' marketing efforts and investor flows (cash investment from investors) is well-documented among mutual funds.[758] In that context, the adviser to the fund bears marketing expenses as part of its total operating cost, and fund shareholders are found to bear some of that cost in the form of fund expenses—unless shareholders react by switching to a similar fund that has lower expenses. One study observed that funds charge higher fees to

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757 *See, e.g.,* Nikolai Roussanov, Hongxun Ruan, & Yanhao Wei, *Marketing Mutual Funds*, Nat'l Bureau of Econ. Research, Working Paper No. 25056 (2018) (developing and estimating a structural model of the effects of mutual fund marketing with costly investor search).

758 *See, e.g.,* Prem Jain & Joanna Wu, *Truth in Mutual Fund Advertising: Evidence on Future Performance and Fund Flows*, 2 J. FIN 937 (2000) (finding that advertising in funds increases flows (comparing advertised funds with non-advertised funds closest in returns and with the same investment objective)); Gallaher, Kaniel & Starks (2006) and Kaniel & Parham (2016) (finding a significant and positive impact of advertising expenditures and the resulting media prominence of the funds on fund inflows). Steven Gallaher, Ron Kaniel & Laura T. Starks, *Madison Avenue Meets Wall Street: Mutual Fund Families, Competition and Advertising* (SSRN, Jan. 2006) *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=879775.; Ron Kaniel & Robert Parham, *WSJ Category Kings – The Impact of Media Attention on Consumer and Mutual Fund Investment Decisions*, 123 J. FIN. ECON. 1 (2016).

cover the marketing cost as they engage in an "arms race" for similar pools of investors.[759] Some of this cost is passed on to investors according to their abilities to distinguish among funds. The authors suggest that as fees increase, investors with a high search cost would be more likely to be made worse off by the increase in fees and related marketing expenditures than those with low search costs. This is because the investors with the high search costs would be more likely to match with asset managers of poor ability, and because the higher fees would reduce returns.

Under current rules, fund advertising may influence investor choice in ways that depend on the ability of the investor to make effective use of the information in the advertisement. When the investor is able to make effective use of the information, advertising can reduce the investor's search cost and thereby improve the efficiency of the match between the investor's choices and preferences.

**Q. Costs and Benefits**

Where possible, we have attempted to quantify the costs, benefits, and effects on efficiency, competition, and capital formation expected to result from the proposed rule. We are providing both a qualitative assessment and quantified estimates of the potential economic effects of the proposed amendments where feasible. As explained in more detail below, because we do not have, and in certain cases do not believe we can reasonably obtain reliable quantitative evidence to use as a basis for our analysis, we are unable to quantify certain economic effects. For example, because the proposed rule would provide fund investors with

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[759] *See* Roussanov, Ruan, & Wei, *supra* footnote 757.

more tailored, concise disclosure than they currently receive, it is possible that readership of fund disclosure may increase. We do not have reliable quantitative estimates of the extent to which the use of more concise disclosure would enhance readership compared to the baseline scenario in which funds continue to deliver the materials that investors now receive. Similarly, the format and content of the proposed annual and semi-annual reports could reduce the amount of time and effort shareholders require to monitor their fund investments and make portfolio decisions (that is, whether to buy additional shares, continue to hold, or sell a fund investment). We also do not have reliable quantitative estimates of the extent to which the delivery of these more concise, tailored reports would reduce the amount of time and effort investors require to make portfolio decisions, or the value of that time and effort to investors. Nor do we have such estimates for the baseline conditions without the proposed rule. In those circumstances in which we do not have the requisite quantitative evidence, we have qualitatively analyzed the economic impact of the proposed rule and the baseline environment. Our inability to quantify these costs, benefits, or other effects does not imply these effects are less significant from an economic perspective. We request that commenters provide any information, including relevant data or supporting quantitative evidence, that may help inform our analysis and understanding of the economic consequences of the proposed rule and amendments.

#### 1. Broad Economic Considerations

In addition to the comments we received in response to the Fund Investor Experience RFC, discussed in Section I.B, academic studies have documented potential benefits of providing more concise and tailored disclosure. While some of these studies apply only to certain elements of our proposal, others apply broadly to the framing of our analysis of the economic impacts of the proposed rule. In particular, some of this research has identified

characteristics that may increase the effectiveness of a disclosure document to consumers, as discussed below.[760]

Research suggests that, because individuals can exhibit limited ability to absorb and understand the implications of the disclosed information, for example due to limited attention or low level of financial sophistication,[761] more targeted and simpler disclosures may be more effective in communicating information to investors than more complex disclosures. Academic studies suggest that costs, such as from increased investor confusion or reduced understanding of the key elements of the disclosure, are likely to increase as disclosure documents become longer, more complex, or more reliant on narrative text.[762] Consistent with such findings, other empirical evidence suggests that disclosure simplification may benefit consumers of disclosed information.[763] In general, academic research appears to support the notion that shorter and more focused disclosures could be more effective at increasing

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760 *See* George Loewenstein, Cass R. Sunstein, & Russell Golman, *Disclosure: Psychology Changes Everything*, 6 ANN. REV. ECON. 391 (2014) ("Lowenstein Paper"). The paper provides a comprehensive survey of the literature relevant to disclosure regulation.

761 See, e.g., David Hirshleifer & Siew Hong Teoh, *Limited attention, information disclosure, and financial reporting*, 36 J. ACCT. & ECON. 337 (2003) ("Hirshleifer & Teoh Study") and L.E. Willis, *Decision making and the limits of disclosure: The problem of predatory lending: Price*, 65 MD. L. REV. 707 (2006).

762 See, e.g., Samuel B. Bonsall & Brian P. Miller, The Impact of Narrative Disclosure Readability on Bond Ratings and the Cost of Debt, 22 REV. ACCT. STUD. 608 (2017) and Alistair Lawrence, Individual Investors and Financial Disclosure, 56 J. ACCT. & ECON. 130 (2013).

763 *See, e.g.,* Sumit Agarwal, et al., *Regulating Consumer Financial Products: Evidence from Credit Cards*, Nat'l Bureau of Econ. Research, Working Paper No. 19484 (Jun. 2014), *available at* https://www.nber.org/papers/w19484 (finding that a series of requirements in the Credit Card Accountability Responsibility and Disclosure Act (CARD Act), including several provisions designed to promote simplified disclosure, has produced substantial decreases in both over-limit fees and late fees, thus saving U.S. credit card users $12.6 billion annually).

investors understanding than longer, more complex disclosures. For example, a concise shareholder report or a prospectus fee summary could more effectively communicate information to investors than current shareholder reports or prospectus fee tables.

Another characteristic of effective disclosures documented in academic research is disclosure salience. Salience detection is a key feature of human cognition allowing individuals to focus their limited time and attention on a subset of the available information and causing them to over-weight this information in their decision-making processes.[764] Within the context of disclosures, information disclosed more saliently, such as information presented in bold text, or at the top of a page, would be more effective in attracting attention than less saliently disclosed information, such as information presented in a footnote. Limited attention also increases the importance of an individual's focusing on salient disclosure signals. Some research finds that more visible disclosure signals are associated with stronger stakeholder response to these signals.[765] Moreover, research suggests that increasing signal salience is particularly helpful to consumers with lower education levels and financial literacy.[766] There is also empirical evidence that visualization improves individual perception of information.[767] For example, one experimental study shows that tabular reports lead to

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764 *See* DANIEL KAHNEMAN, THINKING, FAST AND SLOW (2013); SUSAN FISKE & SHELLEY E. TAYLOR, SOCIAL COGNITION: FROM BRAINS TO CULTURE (3rd ed. 2017).

765 *See* Hirshleifer and Teoh Study, *supra* footnote 761.

766 See, e.g., Victor Stango & Jonathan Zinman, Limited and Varying Consumer Attention: Evidence from Shocks to the Salience of Bank Overdraft Fees, 27 REV. FIN. STUD. 990 (2014).

767 *See* JOHN HATTIE, VISIBLE LEARNING. A SYNTHESIS OF OVER 800 META-ANALYSES RELATING TO ACHIEVEMENT (2008).

better decision making and graphical reports lead to faster decision making (when people are subject to time constraints).[768] Overall these findings suggest that problems such as limited attention may be alleviated if key information in shareholder reports is emphasized, is reported closer to the beginning of the document, and is visualized in some manner (*e.g.*, tables, graphs, bullet lists). However, it is also important to note that given a choice, registrants may opt to emphasize elements of the disclosure that are most beneficial to themselves rather than investors, while deemphasizing elements of the disclosure that are least beneficial to them. The proposed instructions for shareholder reports include requirements that are designed to mitigate this risk. For example, the proposed instructions require disclosure items to appear in a prescribed order, which mitigates funds' ability to provide disclosure opportunistically.[769]

There is also a trade-off between allowing more disclosure flexibility and ensuring disclosure comparability (*e.g.*, through standardization). Greater disclosure flexibility potentially allows the disclosure to reflect more relevant information, as disclosure providers can tailor the information to firms' own specific circumstances. Although disclosure flexibility allows for disclosure of more decision-relevant information, it also allows registrants to emphasize information that is most beneficial to themselves rather than investors, while deemphasizing information that is least beneficial to the registrants.

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768 See Izak Benbasat & Albert Dexter, An Investigation of the Effectiveness of Color and Graphical Information Presentation Under Varying Time Constraints, 10-1 MIS Q. 59 (1986).

769 Funds are already required to provide certain disclosure in a required order in the summary section of the statutory prospectus, or in the summary prospectus. *See* General Instruction C.3 of Form N-1A.

Economic incentives to present one's operations and performance in better light may drive funds to deemphasize information that may be relevant to retail investors. Moreover, although standardization makes it harder to tailor disclosed information to a firm's specific circumstances, it also comes with some benefits. For example, people are generally able to make more coherent and rational decisions when they have comparative information that allows them to assess relevant trade-offs.[770] The proposed rule is intended to strike a balance between the relative benefits and costs of disclosure standardization versus disclosure flexibility; for example, by requiring a prescribed order of disclosure topics and providing standardized instructions for each of those disclosures but allowing some flexibility for certain disclosure presentations (*e.g.*, fund statistics, graphical representation of holdings) to account for different fund types.

In addition, studies have found that the structure or format of disclosure may improve (or decrease) investor understanding of the disclosures being made. Every disclosure document not only presents new information to retail investors but also provides a particular structure or format for this information that affects investors' evaluation of the disclosure.[771]

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[770] *See, e.g.,* JR Kling, et al., *Comparison Friction: Experimental Evidence from Medicare Drug Plans*, 127 Q. J. ECON. 199 (2012) (finding that in a randomized field experiment, in which some senior citizens choosing between Medicare drug plans that were randomly selected to receive a letter with personalized, standardized, comparative cost information ("the intervention group") while another group ("the comparison group") received a general letter referring them to the Medicare website; plan switching was 28% in the intervention group, but only 17% in the comparison group, and the intervention caused an average decline in predicted consumer cost of about $100 a year among letter recipients); CK Hsee, et al., *Preference Reversals Between Joint and Separate Evaluations of Options: A Review and Theoretical Analysis,* 125 PSYCHOL. BULL. 576 (1999).

[771] *See* Amos Tversky & Daniel Kahneman, *The Framing of Decisions and the Psychology of Choice*, 211 SCI. 453 (1981).

This “framing effect” could lead investors to draw different conclusions depending on how information is presented. For example, if the liquidity risk management program information is presented first in a shareholder report, it could affect the way investors perceive all subsequent disclosures in the shareholder report and, possibly, discount more heavily the information provided by funds that disclose issues regarding liquidity risk management over the period. If, instead, liquidity risk management information were provided near the end of the shareholder report, the effect of the information could be moderated because it would no longer frame the other information provided to investors. Because of such framing effects, it is important that the structure of a disclosure document supports the intended purpose of the disclosure.

### 2. Modified Disclosure Framework for Existing Fund Shareholders

#### a. Summary of Economic Effects

The proposal would provide fund shareholders with more concise disclosure that highlights information that is key to retail shareholders for the purpose of monitoring fund investments and informing portfolio decisions, while providing layered access to other information that shareholders now receive that may be of interest to market professionals and some fund shareholders. To promote disclosure that highlights key information for shareholders further, the proposal would permit funds to notify shareholders promptly if certain material changes occur to the fund (provided the summary prospectus, statutory prospectus, and additional information is available online and delivered upon request), instead of delivering annual prospectus updates and prospectus stickers each year. Funds (and intermediaries) would have the option to continue sending the annual prospectus update under the rule.

The following sections discuss the potential costs and benefits of the proposed modifications to the disclosure framework. In summary, we expect the proposed rules to benefit retail shareholders by providing information that is easier to use and that highlights key information for purposes of monitoring fund investments and making informed portfolio decisions. As a result, the proposed amendments could result in shareholders making more informed investment decisions by reducing obstacles that the Commission believes have limited readership of fund shareholder reports—namely, that the reports are too lengthy and not sufficiently tailored for retail shareholders. The proposed rules are also likely to reduce expenses associated with delivering disclosures for some funds, and to the extent that funds pass these savings on to shareholders, fund shareholders would benefit from these cost savings. We discuss two principal types of costs associated with the proposed approach. First, we expect fund and fund shareholders to incur transition costs of adapting to the new disclosure framework. Second, we anticipate some shareholders may sustain costs beyond the transition period arising from the possibility of mismatch between the preferences of the shareholders and the design of the rule proposal.

b. Benefits to Investors

It is difficult to quantify the effects of the proposed modified disclosure framework on investors. The delivery of more concise disclosures by funds through the proposed layered framework may reduce the investor effort required to monitor existing fund investments or to make subsequent portfolio decisions. Key information provided in a concise, user-friendly presentation could allow investors to understand information about a fund's operations and activities or compare information across products more easily or

efficiently, and as a result, may lead investors to make decisions that better align with their investment goals.[772]

For example, the proposed rule requires funds to distill certain key information—such as expenses, performance, and holdings—and use graphs, tables, and other more visually engaging presentations in their shareholder reports.[773] As another example, because the proposal would require fund registrants to prepare separate shareholder reports for each series, a shareholder would be able to more quickly identify information about the fund in which she or he invests, instead of having to find his or her fund in a long report that covers multiple funds. Further, by providing additional flexibility for funds to use technology to provide interactive or user-friendly features in electronic versions of their shareholder reports, the proposal may provide shareholders with access to information that is more tailored to their individual needs and circumstances (*e.g.*, performance or expense information based on their individual investment amounts), which may facilitate better monitoring of fund investments or more informed investment decisions.

There is evidence to suggest that consumers benefit from disclosures that highlight key information.[774] One study finds that the use of summary prospectuses helps investors

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772 Research suggests that individuals are generally able to make more efficient decisions when they have comparative information that allows them to assess relevant trade-offs. *See, e.g.*, *supra* footnote 770.

773 *See supra* footnotes 767 and 768 and accompanying text (discussing studies suggesting that visualization improves an individual's perception of information).

774 *See, e.g.*, *supra* footnote 763; *see also* Robert Clark, Jennifer Maki & Melinda S. Morrill., *Can simple informational nudges increase employee participation in a 401(k) plan?*, Nat'l Bureau of Econ. Research, Working Paper 19591 (2013). The authors find that a flyer with simplified information about an employer's 401(k) plan, and about the value of contributions compounding over a career, had a significant effect on participation rates.

spend less time and effort to make investment decisions without reduction in the quality of those decisions.[775] This research is consistent with the 2012 Financial Literacy Study, which showed that at least certain investors favor a layered approach to disclosure with the use, wherever possible, of tailored disclosures containing key information about an investment product or service.[776] We understand that investors may prefer a layered approach simply to save time in reaching similar investment decisions, or to make better decisions, or both.

Further, investors allocate their attention selectively,[777] and the sheer volume of disclosure that investors receive about funds may discourage investors from reading the materials that are currently delivered to them. For example, in connection with the development of the summary prospectus, the observations of a 2008 telephone survey conducted on behalf of the Commission with respect to mutual fund statutory prospectuses are consistent with the view that the volume of disclosure may discourage investors from reading disclosures.[778] That survey observed that many mutual fund investors did not read

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775 Beshears Paper, *supra* footnote 81. We note, however, that while the authors find evidence that investors spend less time making their investment decision when they are able to use summary prospectuses, there is no evidence that the quality of their investment decisions is improved. In particular, "On the positive side, the Summary Prospectus reduces the amount of time spent on the investment decision without adversely affecting portfolio quality. On the negative side, the Summary Prospectus does not change, let alone improve, portfolio choices. Hence, simpler disclosure does not appear to be a useful channel for making mutual fund investors more sophisticated …" *Id.* at 13.

776 *See* 2012 Financial Literacy Study, *supra* footnote 26.

777 *See, e.g.*, Loewenstein Paper, *supra* footnote 760; Hirshleifer and Teoh Study, *supra* footnote 761.

778 Prior to the Commission's 2009 adoption of mutual fund summary prospectus rules, the Commission engaged a consultant to conduct focus group interviews and a telephone survey concerning investors' views and opinions about various disclosure documents filed by companies, including mutual funds. During this process, investors participating in focus groups were asked questions about a hypothetical Summary Prospectus. Investors participating in the telephone survey were asked questions relating to several disclosure documents,

statutory prospectuses because they are long, complicated, and hard to understand. Investor surveys submitted by commenters on the Fund Investor Experience RFC similarly suggest that shareholders may be more likely to read more concise shareholder reports.[779] To the extent that the proposed rule would increase readership of fund shareholder reports, they could improve the efficiency of portfolio allocations made on the basis of disclosed information for those shareholders who otherwise would not have read the disclosures that the funds deliver currently.

In addition, other information that shareholders currently receive under the baseline, including financial statements, financial highlights, and annual prospectus updates, would be available online and delivered upon request to those shareholders who are interested in more-detailed information. As a result, shareholders who use this information to monitor their fund investments or inform portfolio decisions could continue to access and use this information.

Further, by allowing funds to deliver prompt notices of material funds changes to existing shareholders instead of annual prospectus updates, the proposed rule would help shareholders focus on information that is designed to meet their needs, rather than the needs of new or prospective investors. This aspect of the proposal would also reduce the amount of

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including mutual fund prospectuses. *See* Abt SRBI, Inc., *Final Report: Focus Groups on a Summary Mutual Fund Prospectus* (May 2008), *available at* https://www.sec.gov/comments/s7-28-07/s72807-142.pdf; *see also supra* footnote 10 and accompanying text.

779 *See, e.g.*, Broadridge Comment Letter I (discussing the results of a quantitative survey related to fund disclosure in which approximately 39% of investors said they would be more likely to look at or review a summary format of a fund's annual and semi-annual reports); ICI Comment Letter I (discussing an investor survey of a summary shareholder report prototype, in which more than 90% of participants indicated that they would be more likely to read the summary prototype than a full-length shareholder report); Broadridge Comment Letter II.

duplicative disclosure that fund shareholders currently receive. This is because annual prospectus updates include some of the same types of information as shareholder reports, including expense and performance information. Reducing duplicative disclosure could help shareholders more easily focus on salient information and could reduce the potential for shareholder confusion when a shareholder receives multiple disclosure materials close in time to one another and that include similar information, but with different presentations of that information.

By tailoring the information that funds deliver to shareholders to meet the needs of retail shareholders, the proposed rule could facilitate better or more efficient monitoring of fund investments and overall investment decision-making. The magnitude of this effect will depend on the extent to which investors review the disclosures directly, as a basis for their choices.

In addition, by excluding funds from rule 30e-3, fund shareholders may receive key information to monitor their fund investments or inform their investment decisions more directly as compared to the baseline. To the extent that direct delivery of a concise shareholder report that highlights key information for retail shareholders—including annual report disclosure that better identifies material changes to the fund than current annual prospectus update disclosure—may increase how informed shareholders are about funds, this could potentially increase shareholders' ability to allocate capital efficiently across funds and other investments.[780]

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[780] *See supra* Section I.B.1 (discussing investor preferences for concise, layered disclosure).

The proposed changes are intended to make the disclosures easier to use by highlighting key information for shareholders in a concise, visually appealing format. As described above, shareholders responding to the Fund Investor Experience RFC indicated that shareholder reports are currently too lengthy and technical, and expressed a preference for receiving summary disclosures, including visual tools such as tables and charts.[781] Given this, we expect that the proposed rule could reduce obstacles limiting shareholder readership of fund shareholder reports.

We note that the magnitude of the effect would depend on how many shareholders rely on the reports that are the subject of the proposal to monitor their funds. It would also depend on the extent to which those who use the reports would monitor differently in response to the tailored disclosures and, for other shareholders, how many would choose to rely on the reports under the rule that would not otherwise do so. We are requesting comment on this appraisal, and also comments on what sources might be available for consideration by the Commission of quantitative estimates of the likely future difference in shareholder use of the disclosure under the proposal relative to what would occur in the future under the current framework.

c. Costs to Investors

Fund shareholders could experience certain transition costs under the proposal, and some shareholders may experience other ongoing costs. Transition costs would include the costs of the inconvenience to some shareholders of adapting to the new materials and to the changes in the presentation of information. While the more concise shareholder reports

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781 *Id*.

required by the proposal would likely reduce investor comprehension costs, investors would nevertheless bear a one-time cost of the inconvenience of adjusting to the changes in the disclosures they receive. These costs are likely to be relatively lower for less experienced shareholders and relatively greater for the more seasoned shareholders who are accustomed to existing fund practices.

Shareholders in funds that rely on rule 30e-3 to deliver paper notices to notify shareholders that a shareholder report is available online, or shareholders in funds that were planning to rely on rule 30e-3 and that included statements in their shareholder reports and prospectuses notifying shareholders of the upcoming change to shareholder report delivery, may experience greater transition costs. For example, those shareholders who were receiving rule 30e-3 notices or who expected to begin receiving rule 30e-3 paper notices in the future may experience some confusion when a fund begins to deliver concise shareholder reports. However, shareholders receiving the annual and semi-annual reports that this proposal contemplates would be receiving tailored information more directly than they would through the rule 30e-3 notice. We believe the benefit of making this tailored information more accessible to shareholders would justify any potential short-term confusion that may result from the transition. In addition, a fund that relied on rule 30e-3 would be able to communicate to investors about these shareholder report changes.

Beyond transition costs, the proposal would also impose costs on shareholders who prefer to receive the baseline disclosure as opposed to the more concise and tailored disclosure they would receive under the proposal. These shareholders may experience costs associated with locating additional information online or requesting delivery of materials they would no longer automatically receive. Some shareholders may rely on information that is currently

included in the annual and semi-annual report but would, under the proposed amendments, be located in other documents, such as Form N-CSR or the SAI. Those shareholders would incur the cost of reviewing multiple disclosure documents to locate the information that was previously located in a single document. The significance of this cost would likely depend on several factors, including the delivery method and relative importance of each piece of information to the individual shareholder. For those shareholders who prefer to receive disclosures in paper, the proposal provides an option for the shareholder to request the mailing of a paper copy of the new Form N-CSR items, such as financial statements, that would no longer appear in shareholder reports.

In addition, for funds that rely on proposed rule 498B, shareholders who prefer paper delivery of the annual prospectus update would face the choice of adjusting to using the online version of the prospectus or making ad hoc requests for paper delivery. For those shareholders, the effect of either of these choices would be a cost of disutility or inconvenience from the loss of the automatic access to their preferred option that they have under the current framework but would not have under the proposal.

To illustrate, we note that, for some shareholders, the cost of making requests for additional information would be small and therefore, the cost of losing their preferred option as the default under the proposal would be small. This is because those shareholders would likely react to the proposal by making the effort to request continued mailing of more-detailed semi-annual information or prospectuses. For those shareholders, the cost of the proposal would include the cost of the inconvenience from having to make the request. Shareholders who find it relatively burdensome to make a request for continued mailing, however, would be migrated over to the new delivery framework and face disutility from migrating to the new

tailored disclosures. By providing a mechanism for shareholders to continue to receive the more-detailed information, the proposal would limit the extent to which shareholders who prefer the current disclosures would end up facing disutility from receiving the proposed disclosures instead. Thus, the overall cost of inconvenience or disutility to those shareholders who prefer the delivery framework under the current rules to the proposed framework would depend on how easy it is for shareholders to request continued mailings of more-detailed semi-annual information or prospectuses by funds after the rule goes into effect. We do not have access to reliable estimates of the opportunity cost to investors associated with this effect of the proposed rule; we are therefore requesting comment on this, as well as the effects on the use of investor time and attention, as further described at the end of this section.

In addition to transition costs and information search or request costs, fund shareholders would bear the costs of the proposed modified disclosure framework through the increased expenses that funds would incur to implement the proposal. We discuss those expenses in the section on "other costs," below.

d. Other Benefits

The proposal would reduce some of the costs to funds of delivering information to shareholders. As the owners of the fund assets, shareholders could benefit from this cost reduction in proportion to their holdings of those assets. The magnitude of this cost savings would be more significant to the extent that a fund would deliver shareholder reports or prospectus updates to investors by paper mail in the absence of the proposed rule. The amount of the cost savings would vary across funds, depending on the expressed preferences of the fund and its shareholders for paper versus electronic delivery under Commission guidance on electronic delivery (and, with respect to shareholder reports, rule 30e-3 notices) and on fund practices between delivery of the summary prospectus under rule 498 versus the statutory

prospectus. The scenarios where delivery costs may decline significantly under the proposal, relative to the baseline scenario, are indicated in table 8 and discussed below.

*Delivery Cost Savings for Shareholder Reports*

The proposal would reduce the cost of delivering a shareholder report by a larger per-fund amount for funds that do not rely on rule 30e-3 (deliver the full report) than for funds that rely on rule 30e-3 (deliver a notice) at the time any final rule goes into effect. Thus, we consider separately the delivery-cost savings from the proposed rule for funds under each of these two baseline delivery scenarios. For funds that do not rely on rule 30e-3, the proposal would reduce delivery costs by replacing the cost of sending current annual and semi-annual reports with the smaller cost of sending concise reports to those shareholders who do not request e-delivery. This is because the cost of printing and mailing (including processing fees) would be lower for the concise reports. We estimate that funds could deliver annual and semi-annual reports as trifold mailings (3-4 pages) under the proposal instead of annual reports that are approximately 134 pages on average and semi-annual reports that are approximately 116 pages on average. One commenter on the Fund Investor Experience RFC estimated that delivering a concise shareholder report instead of current shareholder reports would reduce the per unit cost of delivery from $0.50 to $0.33 annually, which is a decline of $0.17 per unit or 34 percent.[782] The commenter's per unit delivery cost estimates assume that 3 out of 10 fund shareholders receive a shareholder report by mail.[783] We understand that these costs may or

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782 *See* Broadridge Comment Letter II.

783 *See id.* We understand that the commenter's cost estimates are not limited to shareholder reports that are delivered by mail and, instead, the cost per unit averages the costs of different delivery mechanisms (including paper and electronic delivery). *See, e.g.,* Comment Letter of

may not be representative of the costs for all funds. For example, the commenter's estimates are based on costs for delivering shareholder reports to shareholders who hold their shares in beneficial accounts and may not reflect any differences in costs for direct-held accounts.[784] Nevertheless, we believe that the estimate of 34 percent is a reasonable estimate of the likely decline in the per unit cost of delivering the concise report for funds that do not rely on rule 30e-3 under the proposal.[785] Thus, for these funds, we estimate that the proposed rule would reduce their current shareholder report delivery costs by 34 percent on average, resulting in an average annual cost savings of approximately $7,040 per fund that does not rely on rule 30e-3.[786] For funds that rely on rule 30e-3, the proposal would reduce delivery costs because it would be less costly to deliver the concise report than the rule 30e-3 notice. That is, while the cost of printing the concise report may be greater than the cost of printing the notice (see table 8), the overall cost of delivery that includes the costs of printing, mailing, and processing fees

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Broadridge Financial Solutions, Inc. (Oct. 31, 2018) on File No. S7-13-18, *available at* https://www.sec.gov/comments/s7-13-18/s71318-4593946-176328.pdf (estimating that the average cost of paper, printing, and postage of a mailed shareholder report is $0.94).

[784] For instance, we understand that the average enrollment rate for electronic delivery may be lower for direct-held accounts, which would result in higher per unit costs for delivering current shareholder reports than the commenter provided. *See supra* footnote 734 and accompanying text. In addition, the cost of delivering the current and proposed shareholder reports vary by individual funds based on a number of factors. For example, we understand that printing and mailing costs vary depending on the length of the fund's shareholder reports and the number of reports it delivers by mail.

[785] $0.17 estimated reduction in shareholder report delivery costs associated with summary shareholder reports / $0.50 estimated costs of delivering current shareholder reports = 34 percent.

[786] *See supra* footnote 740 and accompanying text (noting that the Commission estimated annual printing and mailing costs (inclusive of processing fees) of $20,707.33 absent rule 30e-3). $20,707.33 x 34 percent = $7,040.49.

would likely be lower for the concise report.[787] One commenter estimated that delivering a concise shareholder report instead of a rule 30e-3 notice would reduce the delivery cost from $0.36 to $0.33 annually, which is a decrease of $0.03 per unit or approximately 8 percent.[788] This is assuming that 3 out of 10 fund shareholders receive a shareholder report by mail and is based on the commenter's experience processing shares held in beneficial accounts.[789] We understand that this estimate may or may not be representative of the average costs for all funds. For example, the average enrollment rate for electronic delivery may be lower for direct-held accounts, which would result in higher per unit costs than the commenter provided.[790] As another example, to the extent a fund would share a single, consolidated rule 30e-3 notice with other funds to notify a shareholder of the website address(es) for each fund's report, and the fund has many shareholders who are invested in those other funds, the fund may not experience the same extent of cost savings under the proposal.[791] Nevertheless, we believe that the estimate of approximately 8 percent is a reasonable estimate of the likely decline in the per-unit cost of delivering the concise report rather than rule 30e-3 notices.[792] Specifically, for funds that rely on rule 30e-3, we estimate that the proposed rule would reduce their current shareholder report delivery costs by approximately 8 percent, on average,

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787 *See, e.g.*, ICI Comment Letter I (stating that processing fees on average would be $0.20 for rule 30e-3 notices and $0.15 for concise shareholder reports); Broadridge Comment Letter II.

788 *See* Broadridge Comment Letter II.

789 See id.

790 *See supra* footnote 734 and accompanying text.

791 *See* Rule 30e-3 Adopting Release, *supra* footnote 14, at paragraph accompanying n.211 (discussing consolidated rule 30e-3 notices).

792 $0.03 average reduction in delivery costs for summary shareholder reports / $0.36 average cost of delivering rule 30e-3 notices = 8.33 percent.

and that the average annual cost savings would be approximately $1,243 per fund that relies on rule 30e-3.[793]

The total shareholder report delivery cost savings from the proposal would be a weighted combination of the savings in delivery costs for funds that rely on rule 30e-3 and the savings for funds that do not rely on rule 30e-3. For example, if 86 percent of funds deliver rule 30e-3 notices before the proposal is in effect, the delivery cost savings from the proposal would be an estimated $13.26 million from those funds.[794] In addition, if 14 percent of funds do not rely on rule 30e-3 before any final rules are in effect, the delivery cost savings would be $12.23 million from those funds.[795] Thus, the aggregate delivery costs savings for shareholder reports from the rule would be $25.49 million.[796]

We understand that the estimated cost savings for shareholder reports would depend on factors in addition to those discussed above. These include the fraction of funds that would deliver notices under rule 30e-3 before any final rules are in effect and the extent to which

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[793] Based on one commenter's estimate, delivering the concise report instead of the rule 30e-3 notice would reduce the per-unit delivery cost from $0.36 to $0.33, or $0.03 per unit. *See* Broadridge Comment Letter II. This is $0.03 / $0.17 or approximately 17.65 percent of estimated per-unit reduction in the shareholder report delivery costs for funds that do not rely on rule 30e-3. We thus estimate that the savings from delivering the concise report instead of the notice is 17.65 percent of the estimated $7,040.49 cost savings from delivering the concise report instead of the full report, or 17.65 percent x $7,040.49 = $1,242.65.

[794] 12,410 funds x 86 percent x $1,242.64 estimated savings in delivery costs per fund that delivers a rule 30e-3 notice = $13.26 million.

[795] 12,410 funds x 14 percent x $7,040.49 estimated savings per fund that delivers the full report (and does not rely on rule 30e-3) = $12.23 million.

[796] The weighted average savings in delivery cost per fund is (86 percent x $1,242.64) + (14 percent x $7,040.49) = $1,068.67 + $985.67 = $2,054.34. Multiplying this across all 12,410 funds yields an estimated delivery cost savings from the proposal of 12,410 funds x $2,054.34 per fund = $25.49 million. That is, the aggregate cost savings is $13.26 million + $12.23 million = $25.49 million.

those funds actually experience a delivery cost savings under the proposal. For example, if the cost of delivering a concise shareholder report were about the same as the cost of delivering a notice under rule 30e-3, then our estimated cost savings would decline from $25.49 million to $12.23 million. As another example, if fewer than 86 percent of funds began to deliver notices under rule 30e-3 before any final rules are in effect, then our estimated aggregate cost savings would be greater than $25.49 million. This is because a larger number of funds would experience higher delivery cost savings in that instance.

*Delivery Cost Savings for Prospectuses*

Funds that rely on rule 498B would experience cost savings from delivering prompt notices of certain material changes to existing shareholders instead of the annual prospectus updates and interim prospectus stickers that they delivery currently. The proposal would allow funds to consolidate some of their current disclosures so that they would generally deliver fewer disclosure materials to shareholders.

We estimate that, on average, funds make 1.5 material changes per year that they currently disclose in annual prospectus updates and interim prospectus stickers and that the proposal would require them to disclose in their annual reports or through prompt notices under rule 498B.[797] Of these material changes, we estimate that an average of 1 material change is made in the annual prospectus update. Under the proposal, a fund would disclose this material change in its annual report and generally would not need to send a separate

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[797] *See supra* footnote 725.

notice under proposed rule 498B. We estimate that the remaining average of 0.5 material changes per year would be disclosed separately in rule 498B notices.

As a result, we estimate that proposed rule 498B would reduce fund delivery costs by reducing the number of separate prospectus-related deliveries to existing shareholders from an average of 1.5 deliveries to an average of 0.5 deliveries per year. The total cost savings would depend on factors that include: (1) whether a fund currently delivers annual prospectus updates to all shareholders or tracks which shareholders purchase additional shares during the year; (2) how many shareholders have elected electronic delivery and how many shareholders receive prospectus materials in paper; (3) how many material changes a fund makes each year; and (4) whether a fund delivers prospectus stickers separately or consolidates this delivery with delivery of other materials, such as semi-annual reports. We are unable to estimate the aggregate cost savings across all funds. However, we are able to estimate that the current costs of printing and mailing summary prospectus annual updates is approximately $0.55 per summary prospectus and that the proposal would eliminate at least part of this cost.[798] That is, under proposed rule 498B, funds would no longer incur the costs of delivering annual prospectus updates by mail. Additionally, funds would no longer incur processing fees for delivering annual prospectus updates electronically such as by email currently.[799]

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[798] *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27, at n.1077 and accompanying text (estimating that 9-page updating summary prospectus for variable insurance contracts would cost $0.55 to print and mail); *see also supra* paragraph accompanying footnote 721 (estimating that funds' summary prospectuses are, on average, 8 pages long).

[799] For example, a fund may pay a type of processing fee (referred to as a preference management fee and, formerly, as an incentive fee) of up to 10 cents per distribution per account where a shareholder holds shares in a fund through an account with an intermediary and the shareholder has elected to receive fund disclosures electronically. *See* NYSE rule 451.90(4);

We understand funds that currently deliver statutory prospectuses to existing shareholders would likely experience greater delivery cost savings if they were to rely on proposed rule 498B because of higher printing and mailing costs for statutory prospectuses than for shorter summary prospectuses. However, we assume that only funds that deliver summary prospectuses would rely on proposed rule 498B. We believe that funds that deliver summary prospectuses are more familiar with using layered disclosure concepts to satisfy prospectus delivery obligations and would incur fewer transition costs to comply with proposed rule 498B, as discussed in Section III.C.2.e.

*Benefits of Proposed Form N-CSR Requirements*

Beyond delivery-related cost savings from the proposal, there are benefits associated with the proposed requirement that funds continue to file on Form N-CSR certain information, such as financial statements and financial highlights, that would no longer appear in shareholder reports, relative to the alternative of not continuing to require such filings. The continued availability of this information, including on a historical basis on EDGAR, would allow financial professionals and other market participants to continue to analyze this information over time. This historical information also may facilitate the Commission's performance of fund monitoring responsibilities that benefit investors. Finally, a fund's principal executive and financial officer(s) would continue to be required to certify the financial and other information included on Form N-CSR and would be subject to liability for material misstatements or omissions on Form N-CSR, so there would be no change in this

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Supplementary Material .01(a)(5) to FINRA rule 2251. *See also* Comment Letter of Investment Company Institute (Oct. 31, 2018) on File No. S7-13-18, at 14, *available at* https://www.sec.gov/comments/s7-13-18/s71318-4594882-176335.pdf.

contribution to the maintained accuracy and completeness of this information for investors, market professionals, and others who use this information.

e. Other Costs

Some of the proposed changes in delivery would cause fund shareholders to face greater fund expenses than without the proposal. The likelihood and extent of these increases would depend on the fund's baseline delivery scenario, as follows. For funds that rely on rule 30e-3, the costs of printing and mailing shareholder reports would be higher under the proposal.[800] We generally believe these additional printing and mailing costs would be small. For example, we anticipate that funds may be able to deliver the proposed shareholder reports as a trifold mailing, which would only incrementally increase the printing and mailing costs of a rule 30e-3 notice. One commenter estimated that a concise shareholder report would be approximately $0.01 more expensive to print than a rule 30e-3 notice.[801] We estimate that this cost increase would be less than the estimated decline in the cost of processing fees, as discussed in Section III.C.2.d, above. Moreover, to the extent a fund shareholder invests in multiple of a registrant's funds and these funds would use a single shareholder report absent the proposal, the amendments may increase printing and mailing costs a negligible amount in some instances if certain disclosures across the funds otherwise are the same. In addition, some funds that choose to rely on proposed rule 498B may send more notices of material changes to certain prospectus items in some years than the number of annual prospectus

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800 As discussed below, funds that rely on rule 30e-3 or plan to rely on rule 30e-3 would also incur transition costs under the proposal.

801 *See* Broadridge Comment Letter II.

updates and stickers they would deliver to shareholders without the proposal. Since funds would have the option to rely on proposed rule 498B, however, we expect that funds would likely rely on 498B where it would reduce their average annual costs. That is, we understand that cost is a consideration for funds and that the cost differences may be sufficient in this instance to influence their choice.

**Table 8. Potential effects on delivery of shareholder reports and prospectus updates under the proposal vary according the baseline preferences and requests of the affected funds and fund shareholders.***

| **Table 8.1 - Semi-annual report**. (Effect of proposal to modify the semi-annual report delivery) | | | |
|---|---|---|---|
| **Fund relies on rule 30e-3?** | **Shareholder requests electronic delivery** | **Shareholder requests paper delivery under rule 30e-3** | **Shareholder makes no delivery election** |
| ***Yes*** | Email (with link to 3-4 page trifold tailored report) replaces email (with link to 116 page report) | Paper mail (3-4 page) trifold tailored report replaces paper mail of 116 page semi-annual report<br><br>(Printing and mailing cost decrease) | Paper mail (3-4 page) trifold tailored report replaces paper (1 page) of notice with link to 116 page semi-annual report<br><br>(Printing and mailing cost increase and processing fee decrease) |
| ***No*** | Email (with link to 3-4 page report) replaces email (with link to 116 page report) | N/A | Paper mail (3-4 page) trifold replaces paper mail (116 page) report<br><br>(Printing and mailing cost decrease) |

| **Table 8.2 - Annual report.** (Effect of proposal to modify the annual report delivery) | | | |
|---|---|---|---|
| **Fund relies on rule 30e-3?** | **Shareholder requests electronic delivery** | **Shareholder requests paper delivery under 30e-3** | **Shareholder makes no delivery election** |
| ***Yes*** | Email (with link to 3-4 page report) replaces email (with link to 134 page report) | Paper mail (3-4 page) trifold replaces paper mail (134 page) report<br><br>(Printing and mailing cost decrease) | Paper mail (3-4 page) trifold replaces paper (1 page) notice with link to 134 page report<br><br>(Printing and mailing cost increase and processing fee decrease) |
| ***No*** | Email (with link to 3-4 page report) replaces email (with link to 134 page report) | N/A | Paper mail (3-4 page) trifold replaces paper mail (134 page) report<br><br>(Printing and mailing cost decrease) |

| **Table 8.3 – Annual prospectus update.** (Effect of proposal to permit funds to replace the delivery of annual prospectus updates and prospectus stickers with notices of certain material changes (proposed rule 498B), assuming that they exercise this option) | | |
|---|---|---|
| **Fund uses summary prospectus (rule 498)?** | **Shareholder requests electronic delivery?** | |
| | ***Yes*** | ***No*** |
| ***Yes*** | Eliminate email (with link to 8 page summary prospectus update, annual)<br><br>(Processing fee decrease) | Eliminate paper mail (8 page) summary prospectus update, annual<br><br>(Printing and mailing cost decrease) |
| ***No*** | No change expected but, if a fund relies on rule 498B under these circumstances, it would eliminate email with link to statutory prospectus update (annual), which would decrease processing fees for the fund | No change expected but, if a fund relies on rule 498B under these circumstances, it would eliminate paper mail (128 page) statutory prospectus update, (annual), which would decrease printing and mailing costs for the fund |

| **Table 8.4 – Other prospectus updates.** (Effect of proposal to permit funds to replace the delivery of other prospectus updates or prospectus stickers, with notices of certain material changes (proposed rule 498B), assuming that they exercise this option) | | |
|---|---|---|
| **Is fund change material, as described in rule 498B?** | **Shareholder requests electronic delivery?** | |
| | ***Yes*** | ***No*** |
| ***Yes*** | Email with notice of a material change delivered within 3 business days replaces potentially less timely email of prospectus update or sticker in some instances | Paper mail of notice of a material change delivered within 3 business days replaces potentially less timely paper mail of prospectus update or sticker in some instances |
| ***No*** | May eliminate email of prospectus update or sticker in some instances | May eliminate paper mail of prospectus update or sticker in some instances |

Notes: The costs and benefits of the proposed modification to shareholder report and prospectus delivery under the proposed rules would vary across the baseline delivery scenarios – *i.e.*, the scenario that would be in place at the time of the proposed rule implementation if the current rules were to remain in place – that are shown in the table. Some of the cost and benefits would be transitional and others would be sustained, and each would depend on factors beyond what appears in the table, as discussed in Sections III.C.2.c and III.C.2.e, below. In addition, under the proposal, shareholders may request delivery of paper or electronic copies of the documents that funds would be required to make available online.

As a further delivery-related cost, funds would incur costs under the proposed requirements in rule 30e-1 and rule 498B to deliver certain materials to shareholders upon request. The extent of these costs would depend on how many shareholders prefer the current delivery framework in which they receive additional shareholder report information or annual prospectus updates, how many of these shareholders would prefer to request these materials

directly (*e.g.*, in paper) instead of accessing them online, and whether the shareholders request paper or electronic copies of these materials. We estimate that funds would incur average annual printing and mailing costs of $500 per fund to deliver materials upon request under the proposed amendments to rule 30e-1.[802] For funds that choose to rely on proposed rule 498B, we estimate average annual printing and mailing costs of $500 per fund to deliver prospectuses and related materials upon request under that rule.[803]

In addition to delivery-related costs, fund would experience other costs under the proposal, including both transition costs and ongoing costs. These other costs would result from proposed changes to the scope and contents of shareholder reports, new Form N-CSR items, new website availability requirements, amendments to the scope of rule 30e-3, and preparation of notices of material changes under proposed rule 498B. The compliance costs associated with proposed rule 498B would only affect funds that choose to rely on that rule, and the compliance costs associated with the amendments to rule 30e-3 would only affect funds that rely on that rule or were planning to rely on that rule. The other categories of compliance costs would affect all funds. These different categories of costs could be reflected in fund expenditures that funds could pass on to shareholders, likely in proportion to their participation in the fund. The expenditures could be to procure the services of third parties for

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802 *See infra* Section IV.C. Because we do not have specific data regarding the cost of printing and mailing the materials that must be provided on request, for purposes of our analysis we estimate $500 per year for each fund to collectively print and mail such materials upon request. Investors could also request to receive these materials electronically. We estimate that there will be negligible external costs associated with emailing electronic copies of these documents.

803 *See infra* Section IV.D; *see also supra* footnote 802.

the purpose of implementing the changes to fund disclosure and delivery practices under the proposal, as we understand some funds utilize outside providers for these compliance responsibilities.

Funds would experience transition costs to modify their current shareholder report disclosures. Specifically, funds would incur costs to modify their shareholder reports to comply with the proposed scope and content requirements. We estimate that the initial costs to funds of modifying their annual shareholder report disclosure would be $150,111,360 in aggregate costs and $41,697,600 annually thereafter.[804] We estimate that the initial costs to funds of modifying their semi-annual shareholder report disclosure would be $75,055,680 in aggregate costs and $20,848,800 annually thereafter.[805] Initial costs would include costs associated with designing the concise shareholder reports, amending the scope of shareholder reports to cover a single fund series, implementing any operational changes needed to prepare and deliver separate shareholder reports for different fund series, revising existing disclosure practices for shareholder report items that the proposal would amend (*e.g.*, management's discussion of fund performance, including the proposed clarification of the term "appropriate

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804 The estimated initial cost for the proposed annual reports is based on the following calculations: 36 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $12,096 per fund. 12,410 funds x $12,096 = $150,111,360. The estimated annual cost for the proposed annual reports is based on the following calculations: 10 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $3,360 per fund. 12,410 funds x $3,360 = $41,697,600. *See infra* Section IV.C.

805 The estimated initial cost of the proposed semi-annual reports is based on the following calculation: 18 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $6,048 per fund. 12,410 funds x $6,048 = $75,055,680. The estimated annual cost for the proposed semi-annual reports is based on the following calculations: 5 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $1,680 per fund. 12,410 funds x $1,680 = $20,848,800. *See infra* Section IV.C.

broad-based securities market index," as well as the expense presentation), and developing disclosures for the proposed new shareholder report items (*i.e.*, fund statistics and material fund changes). The ongoing costs would largely be attributed to the costs of preparing new shareholder report disclosure items under the proposal, since funds already incur the costs of preparing the other shareholder report disclosures today. To the extent that the proposed clarification of the term "appropriate broad-based securities market index" causes funds to select a new index for this disclosure purpose, this could result in additional costs to funds in the form of index-licensing fees. Funds also would incur costs of complying with the new Form N-CSR disclosure items. As funds already prepare the disclosure that the proposed N-CSR items would cover for purposes of current shareholder reports and disclose that information on Form N-CSR as part of their shareholder reports, we do not believe the costs of the new N-CSR disclosure would be significant. However, we recognize that funds may face some costs of rearranging their disclosures within Form N-CSR. We estimate that the costs of the proposed new Form N-CSR items would initially be $75,055,680 and $20,848,800 annually thereafter.[806]

In addition, funds would be required to provide additional information online under the proposed amendments to rule 30e-1 and under proposed rule 498B. With respect to rule

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[806] The initial costs of the proposed Form N-CSR requirements are based on the following calculations: 18 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $6,048 per fund. 12,410 funds x $6,048 = $75,055,680. The annual cost of the proposed new Form N-CSR requirements are based on the following calculations: 5 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $1,680 per fund. 12,410 funds x $1,680 = $20,848,800. *See infra* Section IV.D. These PRA burden estimates do not account for the fact that funds are currently required to prepare the same general disclosure for purposes of their shareholder reports. Thus, these PRA-related estimates may over-estimate the costs of the proposed Form N-CSR disclosure items, particularly the transition costs.

30e-1, this would include online availability of the disclosure that the proposal would remove from shareholder reports, including financial statements and financial highlights, as well as quarterly portfolio holdings. In addition, funds that rely on proposed rule 498B would be required to provide certain information online, including summary and statutory prospectuses, SAIs, and shareholder reports. While the vast majority of funds already provide fund information on websites, they may not currently provide the same information that the proposed rule would require.[807]

For instance, under the proposed amendments to rule 30e-1, funds would likely incur costs associated with providing online access to the new Form N-CSR disclosure items (*i.e.*, the information that the proposal would remove from shareholder reports). Funds that do not rely on rule 30e-3 would also incur costs to provide their quarterly portfolio holdings online. We estimate that the initial costs of complying with the website availability requirements in rule 30e-1 would be $35,591,880, with ongoing annual costs of $11,863,960.[808]

With respect to the online information that proposed rule 498B would require, we estimate that funds generally would not incur additional transition or ongoing costs associated with these requirements. This is because we anticipate that only funds that rely on rule 498 to deliver summary prospectuses—and that are already required under that rule to provide the

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807 *See supra* Section III.B.2 and III.B.3.

808 *See infra* Section IV.C. The estimated initial cost of complying with rule 30e-1's website availability requirements is based on the following calculations: 12 hours x $239 (wage rate for webmaster) = $2,868 per fund. 12,410 funds x $2,868 = $35,591,880. The estimated ongoing annual cost is based on the following calculations: 4 hours x $239 (wage rate for webmaster) = $956 per fund. 12,410 funds x $956 = $11,863,960.

same information on websites—would rely on proposed rule 498B.[809] Only these funds are likely to choose to rely on proposed rule 498B because, unlike other funds, they already deliver summary prospectuses under rule 498 and so have experience using layered disclosure. In addition, they are already subject to similar website availability requirements under rule 498. Therefore, they would be more likely than other funds to experience overall cost savings under rule 498B.

However, if a fund that does not deliver summary prospectuses under rule 498 chose to rely on proposed rule 498B, the fund would be required to begin providing the relevant information on a website and to continue to update the website materials as needed. We estimate that the compliance costs of proposed rule 498B for funds that do not currently rely on rule 498 to deliver summary prospectuses initially would be $12,948 per fund to begin to comply with the relevant requirements in proposed rule 498B and would reduce to annual costs of $4,316 per fund thereafter.[810]

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809 Absent the proposed requirement in rule 498B to provide summary prospectuses online, we recognize some funds that currently use summary prospectuses may have less incentive to do so under rule 498B. This is because rule 498B would have the effect of reducing a fund's delivery costs for the annual prospectus update, regardless of whether it uses a summary prospectus or statutory prospectus. Proposed rule 498B would require funds to provide summary prospectuses and other materials online because we believe investors benefit from concise summary prospectus disclosure, along with access to more detailed information, to help inform their investment decisions and compare fund investments.

810 *See infra* Section IV.D. The estimate of initial costs is based on the following calculation: (30 hours to begin to prepare summary prospectuses x $336 (blended wage rate for compliance attorney and senior programmer)) + (12 hours to begin to comply with website availability requirements x $239 (wage rate for webmaster)) = $12,948. The estimate of annual costs is based on the following calculation: (10 hours to prepare summary prospectuses x $336 (blended wage rate for compliance attorney and senior programmer)) + (4 hours to comply with website availability requirements x $239 (wage rate for webmaster)) = $4,316.

In addition to website availability requirements, funds that choose to rely on proposed rule 498B could incur costs to prepare prompt notices of material changes that the rule would require. The proposed rule does not specify the form of this notice. Therefore, a fund could satisfy this requirement, for example, by sending existing shareholders the prospectus supplement filed with the Commission, an amended prospectus which reflects the material change, or another form of notice that discusses the change. The costs of preparing a notice under proposed rule 498B would depend on the approach a particular fund uses. For example, we expect that preparation costs would be fairly minimal if a fund delivers a prospectus supplement or amended prospectus, which the fund would have already prepared for other purposes. However, funds that choose to prepare separate notices under the proposed rule would likely experience higher preparation costs. We estimate that the average annual costs of preparing notices of material changes under proposed rule 498B would be $1,344 per fund, after an initial compliance cost of $4,032 per fund.[811] If 90 percent of funds rely on proposed rule 498B, this would result in aggregate ongoing annual costs of $15,011,136 and initial costs of $45,033,408.[812]

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[811] *See infra* Section IV.D. The estimated annual cost of preparing notices under proposed rule 498B is based on the following calculation: 4 hour x $336 (blended wage rate for compliance attorney and senior programmer) = $1,344. The estimated initial cost of this proposed requirement is based on the following calculation: 12 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $4,032.

[812] The estimated aggregate annual costs of preparing notices under proposed rule 498B is based on the following calculations: (12,410 funds x 90 percent) x $1,344 = $15,011,136. The estimated aggregate initial costs of preparing notices under proposed rule 498B is based on the following calculation: (12,410 funds x 90 percent) x $4,032 = $45,033,408.

Further, to the extent that affected funds have changed their operations in anticipation of relying on rule 30e-3, those funds would bear the costs associated with the proposed amendment's prohibition on open-end funds relying on rule 30e-3. These costs could include, among others, changes to internal systems and adjustments to agreements with third-party vendors contracted to provide relevant services. In addition, if the proposed amendments to rule 30e-3 are implemented by certain funds before January 1, 2022, funds that were planning to rely on rule 30e-3 would experience transition costs associated with removing statements in their shareholder reports and prospectuses indicating that the fund would be transitioning to the rule 30e-3 framework for transmitting shareholder reports. Moreover, funds that choose to take additional steps to inform their shareholders about the modified approach to delivering shareholder reports under the proposal would likely incur additional transition costs. We lack data to quantify these costs because we do not have information about how many funds would provide discretionary notices or other information to their shareholders to explain the proposed changes to shareholder report delivery.

### 3. Prospectus Disclosure Amendments

#### a. Summary of Economic Effects

The proposal would simplify the initial prospectus disclosure to investors in a layered approach where other information would continue to be available online and delivered upon request, free of charge. The proposal requires a new fee summary that includes bottom-line numbers from the current prospectus fee table, and would appear in the summary section of the prospectus (as well as in a summary prospectus if a fund uses that form of prospectus).[813]

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[813] For example, instead of listing different expense types that comprise a fund's total annual

The fee summary would also express the bottom-line numbers in dollar terms, in addition to the current presentation of an amount in terms of fund net assets, and describe fee and expense items in plain English.[814] In addition, funds would simplify their disclosures of principal risk, ranking them by importance and highlighting those that are truly principal to the particular fund.

The following sections discuss the potential costs and benefits of these proposed modifications to prospectus disclosures. In summary, the benefits of the proposal would accrue through better use of the prospectus disclosure materials by investors. The tailored disclosures would enable investors to make more efficient use of their scarce time and attention and, potentially, more informed investment decisions. The costs of the proposal would accrue to fund shareholders through a short-term, transition-related increase in fund expenses required to prepare the new disclosures, and to fund investors in adapting to the new style of prospectus disclosure.

b. Benefits to Investors

The direct effect of the proposed amendments to fund prospectuses would be to simplify the presentation of fee- and risk-related information that funds deliver to investors. This would improve investors' understanding of key information, and this improved understanding could result in more efficient investment decisions.[815] Also the proposed

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operating expenses and then providing the bottom-line total annual operating expenses, the fee summary would only provide the bottom-line total.

[814] For example, a fund would describe a charge an investor incurs when purchasing a fund's shares as a "purchase charge" instead of as a "maximum sales charge (load) imposed on purchases."

[815] Existing research notes that individuals exhibit limited ability to absorb and process

amendments may improve investor understanding with respect to funds that invest 10% or less of total fund assets in acquired funds by reducing emphasis on AFFE as a discrete category of performance expenses where the fund does not invest significantly in acquired funds and by improving consistency between the fund's prospectus fee table disclosures and financial statement disclosures under these circumstances, while also retaining investors' access to information about the potential layering of fees through a fund's investments in acquired funds.[816]

The proposal would enable investors to locate and use key information more easily, requiring less time and attention to process key available information than under current rules. For example, rather than listing different expense types that comprise a fund's total annual operating expenses and then presenting the total annual figure, the fee summary would only provide the total. This would make it easier for retail investors to locate the total amount in the prospectus quickly. Similarly, the proposal would shorten the principal risk disclosure to focus on risks that are truly principal to the particular fund; this would make information about those risks easier to locate and use. We believe that making information easier to locate and use can make the information easier to understand.

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information. *See* RICHARD E. NISBETT & LEE ROSS, HUMAN INFERENCE: STRATEGIES AND SHORTCOMINGS OF SOCIAL JUDGMENT (1980) ("Nisbett & Ross"); Hirshleifer and Teoh Study, *supra* footnote 761.

816 Some commenters have suggested that the disclosure of AFFE in the fee table provides investors with the necessary information to understand the potential layering of fees in a fund of funds arrangements. *See* Kauff Laton Fund of Funds Comment Letter; Rand Fund of Funds Comment Letter.

In addition, the proposed amendments would result in disclosure that is easier for investors to understand. By providing clearer descriptions of certain fee and expense concepts, the proposal would reduce the chance of retail investors misinterpreting this key information. For example, a fund would describe a charge an investor incurs when purchasing a fund's shares as a "purchase charge" instead of as a "maximum sales charge (load) imposed on purchases." Further, by providing fee and expense information in dollar terms, the effect of the fees and expenses may be more understandable to investors.[817] In addition, providing principal risks in order of importance would help investors more readily identify and understand a fund's principal risks relative to the baseline, where funds may order risks alphabetically or in other ways that do not show a risk's relative importance.

Providing more user-friendly and concise information in the prospectus can lower the cost to the investor of gathering key information needed to make choices among funds. The proposal may thus enable investors more easily to evaluate and monitor fund investments and make choices among competing funds than under the current requirements. Some investors may read disclosures that they would not otherwise have read. Others may consider the information they receive more carefully. In each instance, the consequence may be choices among investment alternatives that reflect a better alignment between the circumstances of the investor and the available products. The ultimate impact on investment outcomes depends on the extent to which investors find the amended disclosure easier to access and use and the extent to which they rely on the amended disclosure to inform their

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[817] *See supra* footnotes 63 and 573.

investment decisions and actions. As discussed above, there is evidence to suggest that consumers benefit from disclosure that highlights key information.[818]

The proposal to allow funds with limited investments in acquired funds to move the disclosure of AFFE into a footnote, and eliminate it from the bottom-line total expense disclosure in the prospectus fee table and fee summary, may benefit some investors by making it easier for them to compare and choose among funds to meet their investment objectives. That is, the proposal may enhance the salience of disclosures in the prospectus fee table and fee summary that reflect the fund's main investment strategy relative to the disclosure of its AFFE. As the information on the AFFE amount would be retained in a footnote, investors' access to AFFE information would not change under the proposal. In addition, investors would continue to see a bottom-line number that reflects AFFE where the fund substantially invests in other funds such that the fund is, in essence, managed significantly at the acquired fund level. Maintaining this requirement for these funds is designed to prevent investors from being confused by expense ratios that do not fully reflect the cost of the fund's investments.

c. Costs to Investors

We understand that some investors may prefer the current level of detail about a fund's fees or principal risks, and therefore, the advantages associated with tailored disclosure, as described in this section, may not apply to those investors. For example, if the fund uses a summary prospectus, and an investor would prefer to see the breakdown of fees

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[818] *See supra* footnotes 774 to 778 and accompanying text.

and expenses among various line items (or wants longer narrative discussions about principal risks), the proposal would require the investor to take the additional step of finding the statutory prospectus online or requesting a copy of it. The rule would make it more difficult for the investor who prefers the more detailed information to obtain and use that information than under the current rule baseline. We recognize that, under these circumstances, the proposal would impose some costs of inconvenience to these investors in the form of requiring more time and attention to find the statutory prospectus online or to request a copy of the statutory prospectus.

For investors who prefer the current disclosure format and are aware that a fund has moved the AFFE disclosure into a footnote, there may be some inconvenience even without any change in access to information. For example, the investor would need to take an extra step of obtaining the AFFE amount from the footnote and combining it with the expense information from the fee table to recover the same total expense information that is disclosed currently. However, investors would have access to the information necessary to recover this information under the proposal.[819]

We also recognize that some investors may not recognize that certain funds' AFFE disclosures have moved into a footnote of the fee table under the proposal. If an investor does not realize that the expense disclosure in these funds' prospectus fee tables (*i.e.*, funds that have 10% or less of their total assets invested in acquired funds) no longer includes these

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[819] For example, this could be done by simple addition (*e.g.*, expense ratio of 0.50 + AFFE expense of 0.03 = total expenses of 0.53). The inputs to this addition would be readily available under the proposal to all investors, including in XBRL format.

indirect fund expenses, such an investor could under-estimate the expenses of these funds. Such underestimation could lead to a distortion of some investors' choices relative to their preferences and investment objectives. Relatedly, an investor may be less able to compare funds under the proposal to the extent that any funds continue to include AFFE amounts in their bottom line ongoing annual expenses even though they are eligible to disclose their AFFE in a footnote. Because reliance on the AFFE amendment would be optional, investors may receive expense disclosures from the same types of funds (*i.e.,* those that have 10% or less of their total assets invested in acquired funds) that treat AFFE differently. This could make it more difficult for investors to compare these expenses between funds.

The costs from any potential underestimation of AFFE would depend on how many funds rely on the AFFE amendment. This number would depend, in turn, on fund incentives and on whether funds believe that any benefit from relying on the AFFE amendment would outweigh any costs incurred in moving AFFE disclosure into a footnote. Funds that believe that relying on the amendment would be beneficial by, for example, providing a more consistent fee and expense presentation for investors, may have a greater incentive to rely on the amendment than other funds. In addition, some funds that are slightly above the 10% threshold may have an incentive to reduce their investments in acquired funds to the extent that they believe there would be sufficient benefit from providing AFFE disclosure in a footnote. We believe that few funds would do so. As discussed above, we estimate that approximately 88% of the funds with more than 10% of their total assets invested in acquired funds invest more than 20% of their total assets in acquired funds. Based on this estimate, we would expect that any incentive to reduce investments in acquired funds that is driven by the

proposed AFFE amendment would be limited to the other 12% of funds, which is 4% of acquiring funds.[820]

In addition, fund investors could bear the costs of the prospectus amendments through the increased expenses that funds would incur to implement the proposal. We discuss those expenses in the section on "other costs," below.

d. Other Costs

The proposed amendments would impose costs on funds (which they may pass on to their shareholders) to amend their disclosure practices. For example, the proposal would require funds to review their principal risk disclosure and assess whether the risks they are currently disclosing are principal to the fund under the proposed amendments. Among other things, this may require fund groups to modify their current practices for principal risk disclosure, including where they use many of the same risk disclosures across various funds in the fund group. Funds also would need to determine an appropriate method for ordering a fund's principal risks by importance and implement this approach. We estimate that the proposed amendments to principal risk disclosure would result in initial aggregate costs of $75,055,680 and $16,679,040 annually thereafter.[821] In addition, funds would need to modify their disclosure templates to revise the terms they currently use in prospectus fee tables and

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820 *See supra* footnote 714 and accompanying text.

821 *See infra* Section IV.B. The estimated initial cost of the proposed amendments to principal risk disclosure is based on the following calculations: 18 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $6,048 per fund. 12,410 funds x $6,048 = $75,055,680. The estimated ongoing annual cost of these proposed amendments is based on the following calculations: 4 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $1,344 per fund. 12,410 funds x $1,344 = $16,679,040.

to add fee summaries to their disclosure, although the content of the fee summary would largely consist of information that funds already disclose in their prospectus fee tables. We estimate that the costs of the proposed amendments to prospectus fee and expense disclosure would be $37,527,840 initially and $8,339,520 annually thereafter.[822]

Some of these costs would be incurred by funds that make limited investments in other funds as a result of our proposal to allow such funds to disclose AFFE in a footnote to the fee table and fee summary. While only funds that invest 10% or less of their total assets in acquired funds would be allowed to rely on this proposal, we believe that these costs would also be incurred by funds with investments slightly above 10% in other funds because such funds would likely spend time considering whether they would qualify for the proposal. Therefore, for purposes of our analysis, we assume that the bulk of the costs associated with this proposal would be incurred by funds that invest less than 20% of their total assets in other funds.[823] These funds would incur costs of (1) establishing and implementing procedures they may choose to adopt to monitor the percent of the fund's acquired fund investments relative to total assets; (2) calculating their investments in acquired funds to determine whether they would be permitted to modify their disclosure pursuant to the

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822 *See infra* Section IV.B. The estimated initial cost of the proposed amendments to prospectus fee and expense disclosure is based on the following calculations: 9 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $3,024 per fund. 12,410 funds x $3,024 = $37,527,840. The estimated ongoing annual cost of these proposed amendments is based on the following calculations: 2 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $672 per fund. 12,410 funds x $672 = $8,339,520.

823 We believe that funds that invest more than 20% of their total assets in other funds would not choose to exert this effort because it is unlikely that they would anticipate being able to rely on the proposal.

proposal; and (3) updating their prospectus fee table to modify their AFFE disclosure if they choose to present AFFE in accordance with the proposal, and they are eligible to do so. We estimate that approximately 30%, or 3,723 open-end funds, have investments in other funds. Of those, we estimate that approximately 70%, or 2,606 open-end funds, invest less than 20% of their total assets in other funds (excluding money market funds).[824] Therefore, we estimate that the transition costs associated with this proposed amendment would be $4,378,080.[825]

We understand that changes in the prospectus also could affect data aggregators that rely on the information in the prospectus fee table as a basis for the services they provide to investors and other parties. We have considered that changes in the prospectus can make it easier or more difficult for them to provide this service. In this instance, the proposal is unlikely to have an effect on data aggregators because the full fee table would still be structured.[826] We believe that the information available to data aggregators about the current line items would not change under the proposal accordingly.

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824 For funds that may be eligible for the proposed amendments to AFFE disclosure, we believe that approximately 50% of the burden hours they would incur to comply with all of the proposed fee disclosure amendments would be allocated to complying with these amendments.

825 5 hours x $336 (blended wage rate for compliance attorney and senior programmer) = $1,680 per fund. 2,606 funds x $1,680 = $4,378,080.

826 *See supra* Section II.H.1.i (discussing structured data requirements for fund fee and expense disclosures and proposed amendments to continue to require that funds provide the full fee table in a structured data format).

### 4. Advertising Rule Amendments

#### a. Summary of Economic Effects

The proposed advertising rule amendments would enhance the transparency of the fees and expenses that are associated with investing in a particular investment company. To obtain this improvement in transparency, the proposal would require specific changes to how mutual funds, ETFs, other registered investment companies, and BDCs present information about fund fees and expenses in fund advertisements. That is, the proposed amendments would require that the fee and expense presentations prominently include timely information about a fund's maximum sales load (or any other nonrecurring fee) and gross total annual expenses, computed in a manner that is consistent with relevant prospectus requirements. Further, if an advertisement included an investment company's total annual expenses net of a fee waiver or expense reimbursement amount in addition to the required gross annual expense figure, the advertisement would need to disclose the expected termination date of that arrangement. We also propose to provide specific factors an investment company should consider as part of its determination of whether representations in its advertisements about the fees and expenses associated with an investment in the fund could be materially misleading.

Below we discuss the likely effects of the proposed amendments to the advertising rules. We expect that the proposed amendments would lower investor search costs and reduce the risk of a mismatch between investor preferences and investor choice while also imposing certain costs on investors and third parties who participate in the production and delivery of fund advertising to investors. Additionally, we discuss how the effects of the proposed amendments to the advertising rules may vary across investors and funds according to the conditions of their participation in the market for financial products.

b. Benefits to Investors

The effect of the proposal would be to reduce the likelihood that investors misinterpret investment company advertisements. For example, the recent experience of the Commission is that funds sometimes market themselves as "zero expense" or "no expense" funds based solely on information in their prospectus fee tables. In some cases a fund's prospectus fee table may show no transaction costs and no ongoing charges only because the fund adviser, the adviser's affiliates, or others are collecting fees elsewhere from these investors. In such cases, an investor in a so-called "zero expense" fund may encounter other investment costs, including intermediary costs (*e.g.*, through wrap account fees), securities lending costs (*e.g.*, through revenue sharing with a securities lending agent), or future costs associated with the fund once an underlying fee waiver or expense reimbursement arrangement expires. These additional costs and expenses can reduce the value of a shareholder's investment in a fund. As a result, absent appropriate explanations or limitations, referring to such a fund as a "zero expense" fund can materially mislead investors and cause them to believe incorrectly that there are no expenses associated with investing in the fund.

More generally, the proposed rules would require more consistent fee and expense presentations across investment company advertisements, and thus facilitate investor comparisons of important fee and expense figures. By reducing the chance of misleading information being presented to investors—*e.g.*, so that useful information faces less competition for investor attention with other information—the proposal may increase the salience of relevant fee and expense figures to investors and reduce the chance of a mismatch between the investor's preferences and their choice of investment product among the various alternatives, thereby increasing the efficiency of investors' investment decisions. The extent to which increasing the salience of fee and expense information in advertisements benefits an

investor considering an investment in a fund depends on the importance of this information contained in fund advertising materials relative to the other information that is available to the investor for the purpose of monitoring fund investments and choosing between the fund and other financial products.

To the extent that the advertising rule amendments reduce fund incentives to understate or obscure their fees, they may enable investors more easily to distinguish funds according to their actual fees. In this instance, the indirect effect would be that funds with lower (higher) fees would attract more (less) investor dollars and, in anticipation, the higher-fee funds would have a greater incentive to lower their fees than without the rule amendments. Thus, some funds may put even more effort into lowering their fees and expenses than they would do in the absence of the proposal, and otherwise find ways to differentiate themselves to attract and retain investment business.

c. Costs to Investors

Investment companies and third parties involved in preparing or disseminating investment company advertisements may incur costs to comply with the proposed advertising rule amendments. Investors could bear the costs of these amendments through increased expenses that funds would incur to implement the proposal. We discuss those expenses below.[827]

In addition, if the cost of compliance with these proposed amendments were significant, some advertisers might cease advertising rather than incur the extra costs of

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[827] *See infra* Section III.C.4.d.

compliance, which could affect investors. Investors who rely on advertisements to make investment decisions or compare funds might have less complete information for these purposes. However, we believe this is unlikely because, as discussed below, we do not anticipate that the compliance costs would be significant in general or significant enough relative to the benefit that most funds would expect from continuing to advertise.[828]

d. Other Costs

The cost of our proposal to amend the advertising rules would include the direct cost of modifying advertising materials to bring them into compliance with the proposed advertising rule amendments. This may require internal review and approval of advertisements beyond what occurs under the current rule, particularly where an advertisement is not already required to present certain fee and expense figures under existing FINRA rules. For example, while many investment company advertisements are subject to timeliness requirements related to performance, they currently are not subject to similar timeliness requirements for fee and expense information. We expect some of these costs to be borne in the first year after the rule adoption. That is, they would be transition costs and not sustained beyond the first year. We estimate that the transition costs associated with the proposed advertising rule amendments would be $201,353,040.[829] These costs would be borne

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828 *See infra* Section III.C.4.d.

829 *See infra* Sections IV.F through IV.H. We estimate there are 39,951 investment company advertisements (or supplemental sales literature) each year that would be subject to the proposed amendments to rules 482, 34b-1, and 433. This includes 35,514 advertisements subject to rule 482, 337 supplemental sales literature subject to rule 34b-1, and 4,100 advertisements by registered closed-end funds or BDCs used in reliance on rule 433 instead of rule 482. For each of these rules, we estimate an initial burden of 15 hours for relevant advertisements. The estimated transition costs of the proposed advertising rule amendments is based on the following calculation: 15 hours x $336 (blended wage rate for compliance

by funds (including their shareholders), intermediaries, and other third parties who prepare investment company advertisements.

The overall costs of the proposed advertising rule amendments would be greater for some types of fund advertisements than others. For example, the proposed rule would require the fee and expense figures to be calculated in the manner the registrant's Investment Company Act or Securities Act registration form prescribes for a prospectus. This proposed requirement could make it more burdensome to prepare advertisements for some types of registrants, such as closed-end funds that do not maintain updated prospectuses and, thus, may not currently calculate current fees and expenses in the manner the proposed amendments would require. As a result, it would be more costly to prepare these advertisements (if they include fee and expense information) because of the need to develop new procedures for annually calculating these registrants' fees and expenses in accordance with prospectus fee table requirements. In addition, the cost of compliance would be greater for funds, intermediaries, or others that react to the proposed advertising rule amendments by initiating or enhancing a compliance program after previously having no such program or only a very limited program in place. It would be smaller for those who periodically obtain compliance advice and continually update their advertising materials in response to changing market conditions or changing investor demand. Overall, we estimate that the ongoing annual costs of the proposed advertising rule amendments would be $67,117,680.[830]

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attorney and senior programmer) x 39,951 advertisements = $201,353,040.

[830] *See infra* Sections IV.F through IV.H; *see also supra* footnote 829. The estimated annual costs of the proposed advertising rule amendments is based on the following calculation: 5 hour x $336 (blended wage rate for compliance attorney and senior programmer) x 39,951

### R. Effects on Efficiency, Competition, and Capital Formation

This section describes the effects we expect the proposed rule to have on efficiency, competition, and capital formation. Key to this analysis are the concepts of efficiency in the use of investor time and attention and in the use of fund resources from the real economy to meet disclosure delivery obligations. We regard changes and amendments that reduce these costs as increasing economic efficiency, with changes and amendments that increase these costs having the opposite effect. Also key is the concept of "information asymmetry"—in this case, the lack of information that investors may have about funds and other investment products—and the difficulties that some investors may face in using the information that is available to them in reducing that information asymmetry.

*Efficiency*. The proposed rules and amendments would enable investors to use their time and attention more efficiently. To investors, the costs of investing in a fund are more than just the dollar cost, and include the value of an individual's time and attention that is spent gaining an understanding of the fund and its fees, expenses, risks, and other characteristics, both before and after the initial fund investment. Further, for those investors who do not gain a full understanding of the fund and its risks, there could be a cost stemming from a potential mismatch between the investor's goals and the fund risk profile and fee structure. Depending on the size of an individual's position in a fund, certain of these additional costs could be considerable in comparison to the monetary costs associated with the investment and could discourage investors from gathering information about different

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advertisements = $67,117,680.

investment alternatives and evaluating existing investments even in circumstances where reviewing prospectuses and available shareholder reports could be beneficial.

The overall efficiency gains from the effect the proposal and amendments have on how investors allocate their time and attention would depend on the extent to which individual investors find it easy to transition from the current framework to the new framework and find disclosure and other materials under the new framework genuinely easier to use. Some individuals may prefer the current framework. Their time and attention may be used less efficiently under the proposed rules, which would require them to go to the trouble of requesting their preferred materials rather than receiving them automatically as would occur in the current framework, and these investors would indeed not find the new framework preferable to current practice. However, despite these potential limitations, we expect the efficiency gain and cost reduction from changes in the use of investor time and attention resulting from the proposed rule to be positive, because the proposed disclosure framework is specifically designed to make the disclosures easier for retail investors to use while continuing to provide access to more detailed information for the market professionals and other investors who wish to access them, as discussed in Section III.C.2.b.[831]

While not the primary source of efficiency gain, changes in the delivery of disclosures to shareholders under the proposed rules would cause a decline in the real-resource costs of delivering disclosures to investors. This could be an efficiency gain from the proposal.

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[831] These provisions would thus not have efficiency effects for financial professionals and other investors who currently rely on more detailed information online that will continue to be accessible.

Specifically, by effectively consolidating two deliveries – the annual report and the annual prospectus update – into a single delivery of a concise annual report, the proposal would promote efficiency by reducing the cost of printing and delivering disclosures to retail shareholders. Here, efficiency gains would depend on the preferences of individual shareholders, who would have the option of requesting that the two disclosures instead continue to be sent separately. They also would depend on the preferences of funds. We discuss these efficiency gains from reduced delivery costs as benefits of the proposal in Section III.C.2.d.[832]

In addition, efficiency gains may arise from the proposed improvements to prospectus disclosure about fund fees. For example, investors may find it easier to compare the fees and expenses of funds under the proposal. The proposal may therefore contribute to the efficient use of those investors' time and attention, and lead to more efficient matches between investor preferences and the available investments. To the extent the proposed amendments would affect funds' investment behavior, it could result in funds investing in acquired funds where the adviser believes this would contribute to the fund's investment objective and would be in the interest of shareholders. This could result in the fund allocating its investments more efficiently because it would reduce a potential impediment to investments in acquired funds, even while it may result in other funds reducing their investments in acquired funds for the purpose of moving or staying below the proposed eligibility threshold. We discuss the

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832 For example, as discussed above, greater investor understanding of a fund, including its fees and risks, could lead to a better match between investor goals and investor choice among alternative funds and other investment opportunities. In other words, investment efficiency could increase.

efficiency gains from changes in the prospectus fee table as benefits of the proposal in Section III.C.3.b.

In addition, the proposal may affect economic efficiency through changes in disclosure content. The proposed amendments to the content of shareholder report disclosure and the presentation of advertising materials would increase the consistency of the presentation of their contents across funds (and, in the advertising rule change, across a wider range of investment opportunities) and thereby promote their comparability. This may make it easier for investors to make comparisons across funds, and between funds and other investment products. As a result, investors may face lower information asymmetry and lower search costs in choosing among funds, and among investment opportunities more generally. In addition, investors and other market participants may be more easily able to monitor their fund and other investments. Finally, investors may be more likely to react to actual differences in fund fees, expenses, principal risks, and other fund characteristics than under the current framework to the extent that those differences are more easily identified. Thus, the proposed rules and amendments that reduce information asymmetry and search costs may reduce barriers that funds and intermediaries face in supplying investment opportunities to investors, and that investors may face in comparing and evaluating the suitability of the investments initially and, as fund shareholders, over the period of the investment.[833] The proposed

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[833] As noted above, there may be investors who would prefer the disclosure framework that is now in place and who would under the proposed framework need to take extra steps to continue to use the disclosures that they use in making investment decisions currently. To the extent this occurs, the proposal could lead to additional costs and reduced efficiency for such investors in their evaluation of fund investments.

advertising amendments would have similar effects, by deterring potentially misleading statements by funds.

These increases in efficiency and related cost reductions could manifest as a higher likelihood that investors make use of the disclosures that funds provide through their prospectus and shareholder reports, and thus lead to investment decisions that are informationally efficient. First, it may increase the likelihood that investors choose a mix and level of fund investments that are consistent with their overall financial preferences and objectives—a level that may be higher or lower than would occur presently. The proposal may help promote investment in funds by investors who would benefit from them. Second, an increase in the informational efficiency of investor decisions could make it more likely that those investors who choose to invest in funds make choices that are consistent with their preferences and needs and reject those that are not. Third, making it easier for investors to use the information that is disclosed under the rule provisions that require concise, tailored prospectus and shareholder report disclosures could facilitate more efficient investor allocation of assets across funds. These effects on efficiency would be limited, however, to the extent that investors rely on third parties for advice in selecting among financial products, where that third party uses more information than the proposed shareholder reports and amended prospectus disclosure.[834]

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[834] For example, one investor survey found that 24% of surveyed mutual fund investors agreed with the statement, "I rely on a financial adviser or broker to look at these sorts of [fund] documents." *See* ICI Investor Survey, *supra* footnote 36, at 20. Within subsets of the surveyed investors, 57% of mutual fund investors aged 65 and older, and 58% of mutual fund investors with household incomes less than $50,000, agreed with this statement. *See id.* at nn.19 and 20. A third party adviser, for example, may prefer to access all information that is available about a fund online rather than rely solely on the prospectus and shareholder report information that

*Competition*. The proposed rules and amendments that affect information asymmetry between investors and funds may, by reducing investor search costs, affect competition. For example, the proposed rules and amendments make changes to shareholder reports, prospectus disclosures, and fund advertisements that would enable investors to compare fees and expenses and other information more easily across funds, and between funds and other financial products, could affect competition among funds by making it easier for lower-fee funds to distinguish themselves from other funds. This could lead investors to shift their assets from higher-fee funds to lower-fee funds. It also could lead funds, in anticipation of this, to lower their fees or otherwise take steps to draw investor flows away from competing funds or avoid outflows to competing funds under the modified disclosure framework. It could lead funds to exit that are not as easily able to compete on the basis of fees and expenses as a result of the modified disclosure framework, and other funds to enter and compete for investor assets more efficiently than would currently occur. The effect on competition among funds may be limited, however, to the extent that investors rely on third parties who are not affected by the rule for advice in selecting among financial products.[835]

As discussed above, the proposed clarification of the term "appropriate broad-based securities market index" in the management's discussion of fund performance section of the shareholder report could result in additional costs to funds in the form of index-licensing fees. The amount of these costs would depend, among other things, on market competition among

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is the subject of the proposal. Such an adviser would not change its information or advice under the proposal. Funds would not anticipate such a change, and there would be a lesser effect on competition among funds accordingly.

[835] *See also supra* footnote 834.

index providers. If the proposed clarification were to result in a sufficient reduction in the number of index providers producing indexes that are "appropriate broad-based securities market indexes" or increased demand by funds to license indexes from a sufficiently small number of competing suppliers, index-licensing fees could increase.

The proposed amendments to prospectus disclosure requirements could have similar competitive effects as enhanced fee and expense disclosures. If these proposed amendments have the intended effect of making the disclosure of principal risks more usable for investors and cause each fund to highlight those risks that are truly principal to the particular fund, they may also induce funds to compete more intensively on the basis of risk exposures. For example, some funds may choose to hedge certain risks, such as foreign currency risks, or otherwise manage risks, in an effort to offer investors a narrower set of risk exposures.

Finally, we noted earlier in Section III.C.4.c that certain funds may respond to the proposed amendments to the advertising rule by limiting their advertising. Reduced advertising could affect the way in which funds compete for investor assets, causing funds to focus competition more narrowly on dimensions that are disclosed in prospectuses, such as fees, expenses, and principal risks. At the same time, if investors respond to fewer fund advertisements by making fewer comparisons between funds or searching less intensively for funds that match their preferences, the proposed amendments to the advertising rule could blunt competition between funds.

*Capital Formation*. The proposed rules and amendments could lead to an increase in capital formation. First, to the extent they increase the efficiency of exchange in markets for funds and other financial products, the proposed rules and amendments could lead to changes in fund investment in these products. Greater investment in ETFs, mutual funds, and other

products, for example, could lead to increased demand for their underlying securities. The increased demand for those securities could, in turn, facilitate capital formation. Diminished investment could have the opposite effect, although we do not have any reason to believe that the proposal would decrease capital formation. In addition, changes in the prospectus fee disclosure could affect the willingness of index providers to include funds in their indexes or of funds to invest in other funds, as some commenters have indicated.[836] If the proposed amendments increase fund investments in certain other funds, they could in turn result in additional capital formation for the particular types of companies in which the acquired funds invest.[837] For example, to the extent the proposal would result in funds investing more in BDCs, the proposal could enable BDCs to make additional investments in small- and mid-sized companies.[838]

We further note that, to the extent that increased or decreased investment in these financial products reflects substitution from other investment vehicles, the effect on capital formation would be attenuated because this would reduce the net change in the overall amount of investment in the capital markets.

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836 *See supra* footnote 611 (discussing comments on the effects of AFFE disclosure on BDC investments).

837 As an example, to the extent BDCs were excluded from indexes as a result of concerns about the effect of BDC investments on funds' fee tables as a result of AFFE disclosure, as commenters have suggested, the proposal may result in BDCs being included in indexes again. This may occur particularly where BDCs and other funds would represent less than 10% of an index, which would permit funds tracking the index to rely on the proposed AFFE amendments. *See id.*

838 Of the funds that invest in acquired funds, we estimate that approximately 11% currently invest in BDCs. This is based on staff's analysis of Form N-PORT filings received through early June 2020.

The proposed rules that would lower the cost of delivering disclosures to fund shareholders could have a positive effect on fund performance and attract new investors or additional capital from existing investors. If so, the rule could promote capital formation benefits. We are unable to estimate precisely the magnitude of capital formation effects that may result from our projected cost savings under the rule because the magnitude of such effects may be affected by the extent of pass-through cost savings and by other factors that affect the flow of investor capital into mutual funds and ETFs, including other components of fund returns, overall market returns, and returns on investments other than funds. To the extent that any proposed rule or amendment would increase the delivery cost, we would anticipate the opposite effect.

The proposed rule changes and amendments are designed to make shareholder reports and prospectus disclosures easier for shareholders to use and to help investors better understand fees and expenses through fund prospectuses or advertisements. To the extent that it becomes easier for investors to use fund disclosure or to understand investment fees and expenses, the effect may improve retail investors' understanding about, and confidence in, the market for funds and other investment products, which may increase participation in this market by investors that previously avoided it. Such additional entry by new investors could increase the level of total capital across markets and increase the demand for new investment products and securities, which could lower the cost of capital for operating companies, precipitate capital formation in aggregate across the economy, and facilitate economic growth. These effects on capital formation would be limited, however, to the extent that investors rely on third parties who are not affected by the rule for advice in selecting among financial

products.[839] Overall, we do not have reason to believe that the proposed rules or amendments would have significant effects on capital formation.

### S. Reasonable Alternatives

#### 1. More or Less Frequent Disclosure

The proposal would maintain a fund's obligation to deliver an annual and a semi-annual report to shareholders. Alternatively, we could consider increasing or reducing the frequency of reports that funds would be required to deliver to shareholders.

As one alternative, the Commission could propose to increase the required frequency of delivery of reports to shareholders beyond what occurs under the current disclosure framework. For example, the Commission could require funds to deliver shareholder reports on a quarterly basis, rather than on a semi-annual basis as would continue to be the case under the proposal. To the extent shareholders review these additional reports, receiving the reports more frequently could keep shareholders better informed about their fund investments and could enhance shareholders' familiarity and comfort with reviewing shareholder report disclosures, since they would encounter such disclosures more frequently. As a result, investors may make more informed investment decisions. However, increasing the frequency of reports would require greater allocation of fund resources to preparing and delivering shareholder reports, which would increase fund (and shareholder) costs. In addition, receiving more frequent shareholder reports would place greater demands on shareholder time and

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[839] *See also supra* footnote 834.

attention compared to the proposal, which could decrease the likelihood that shareholders review the reports and rely on them to inform their investment decisions.[840]

The Commission could also propose alternatives to transmitting the semi-annual report, such as permitting the requirement to transmit semi-annual reports to be satisfied by a fund filing certain information on Form N-CSR or by making information available on a website (either semi-annually or more frequently). Relative to the proposal, funds would benefit from cost savings associated with no longer being required to deliver the semi-annual report. Funds also could experience lower costs associated with preparing disclosures, particularly if the information they were required to provide on websites largely replicated information that many funds already provide online in monthly or quarterly fact sheets.[841] Shareholders could benefit from these cost savings to the extent funds pass them through. However, shareholders who prefer to receive information more frequently than annually, as they currently do, would incur costs associated with the reduced frequency of delivery, such as costs of locating information online instead of in the delivered semi-annual report. In addition, to the extent this was an optional framework (*e.g.*, funds could either provide certain information online or deliver semi-annual reports), the alternative framework may lead to shareholders in some funds receiving less direct information than those in other funds.

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840 Existing research notes that individuals exhibit limited ability to absorb and process information. *See supra* Section III.C.1; Nisbett & Ross, *supra* footnote 815; Hirshleifer and Teoh Study, *supra* footnote 761.

841 *See generally supra* text following footnote 23.

### 2. More or Less Information in Shareholder Reports

The proposal would make the disclosures that funds send to shareholders more concise, without materially changing the overall amount or scope of information that funds provide to their shareholders (either in shareholder reports or separately online). Instead, the Commission could propose to require more (or less) information in fund shareholder reports and less (or more) information online or upon request only, relative to the proposed amendments. We could further propose to reduce the overall amount of disclosure funds are required to prepare and provide, *e.g.*, by no longer requiring funds to provide disclosure regarding the basis for the board's approval of investment advisory contracts.

The benefits of requiring more information to be included in shareholder reports (with less information online or upon request only) are that fewer investors may need to take any additional steps needed to access the information online, which would reduce burdens on those investors. However, this alternative also has certain costs. For example, requiring more information in shareholder reports may reduce the likelihood that shareholders review the reports because they may be more likely to feel overwhelmed by the length of the reports. Shareholder reports that include more information than the proposed content may also make it harder for shareholders to find key information within the report. Moreover, increasing the length of shareholder reports by requiring additional content could also increase delivery costs for funds (which could also be passed on to shareholders), particularly with respect to printing and mailing costs.

As another alternative, we could further limit the content of shareholder reports. This alternative could result in shareholder reports that are easier for shareholders to review and could reduce costs associated with the preparation and delivery of shareholder reports. However, this alternative may reduce the utility of shareholder reports for many if not most

shareholders if the reports do not include the key information those shareholders tend to use to monitor their fund investments or make portfolio decisions. If, as part of this alternative, we required funds to provide the information removed from shareholder reports to shareholders upon request or online, those shareholders would face the burden of requesting the information or locating it online. If we instead removed certain disclosure requirements entirely, the costs to funds of preparing disclosure would decline. This approach would, however, reduce access to information for all market participants, which may result in less informed monitoring or investment decisions by shareholders or by the market professionals they rely on for investment advice.

#### 3. Retaining Rule 30e-3 Flexibility for Open-End Funds Registered on Form N-1A

The Commission is proposing to exclude funds registered on Form N-1A from current rule 30e-3. Under the proposal, affected funds would be required to deliver concise shareholder reports directly to shareholders in order to meet their delivery obligations. Funds would not have the flexibility to instead deliver a paper notice with information about the online location of the shareholder report, as is the case under current rule 30e-3.

As an alternative, the Commission could continue to permit these funds to rely on rule 30e-3 to satisfy their shareholder report delivery obligations. This alternative would provide optionality to funds to determine their preferred method for delivering shareholder reports where shareholders have not expressed a clear preference for electronic delivery or paper delivery of the report and could reduce costs for some funds compared to the proposal, such as for those funds that have already begun to prepare to rely on rule 30e-3. It also could reduce the potential for shareholder confusion where funds have notified shareholders of their intent to rely on rule 30e-3 and of the associated upcoming changes to shareholder report delivery.

However, given that we do not expect the proposed shareholder reports to be much longer than a paper notice under rule 30e-3, we do not believe that excluding relevant funds from rule 30e-3 as proposed would significantly increase the costs of delivering shareholder reports relative to the baseline.[842] For instance, the proposed amendments may reduce processing fees associated with delivering shareholder reports through intermediaries and should not significantly increase printing and mailing costs. Moreover, we believe that delivering a concise shareholder report to shareholders directly may help them more efficiently monitor their fund investments. This is because shareholders who would otherwise receive paper notices under rule 30e-3 could avoid the additional step of finding the report online.

In addition, we recognize that if a fund could rely on both rule 30e-3 and proposed rule 498B, shareholders may no longer directly receive substantive disclosure about a fund investment, beyond notices of material changes under proposed rule 498B. This could result in shareholders being less informed, compared to the proposal. If, instead, funds were provided the option to rely on either rule 30e-3 or proposed rule 498B, a shareholder in a fund that chooses to rely on rule 30e-3 instead of proposed rule 498B would receive direct disclosure that may be less well-suited to his or her needs than a shareholder of a fund that relies on proposed rule 498B (or on neither rule), given that prospectus disclosure is designed more for the needs of new or prospective investors than for the needs of existing shareholders.

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[842] *See supra* footnote 134 and accompanying text (discussing our belief that the proposed shareholder reports could be trifold self-mailers).

#### 4. Limiting the Advertising Rule Amendments to ETFs and Mutual Funds

The proposed advertising rule amendments would apply to all registered investment companies and BDCs. The scope of entities affected by these amendments would therefore be broader than under the proposed rule and other proposed amendments, which apply only to open-end funds, such as mutual funds, and to ETFs. As an alternative, we could also limit the scope of the proposed amendments to the advertising rules to apply only to open-end funds.

Under this alternative, the advertising rule amendments would apply to a narrower class of entities than is proposed. The effect would be to reduce both the cost and benefits of the proposed advertising amendments that are discussed in Section III.C.4, as these costs and benefits would accrue only to shareholders and issuers of the narrowed class of entities, and would no longer accrue to shareholders and issuers of any entities that would be excluded under the alternative. In addition, the alternative could lead to a disparity in the quality of the information that is available to market participants about funds that would be covered by the advertising rule amendments under the alternative and the entities that would be outside its scope. This could lead to reduced comparability and distortions in investor choice across registered investment companies and BDCs, relative to the approach the Commission is proposing, which would apply the standards across all of these entities evenly.

#### 5. Amending Prospectus Fee, Expense, and Principal Risk Disclosure in a Different Manner

The proposed prospectus fee summary disclosure would require funds to provide certain fee and expense information both as a percent of a fund investment and in dollar figures based on a $10,000 investment, while the presentation of those numbers in the full fee table would remain only in percentage figures. Alternatively, we could require funds to express fees and expenses in the fee summary as a percent of a fund investment only, similar

to the current fee table presentation. This alternative would streamline the fee summary and could make it more visually appealing by reducing the amount of detail. It also could marginally reduce costs of preparing disclosures for funds. However, as discussed above, a fee summary that excludes dollar-based figures may be more difficult for some investors to understand.[843]

The proposed amendments are designed to promote more concise principal risk disclosure in the summary section of the statutory prospectus (or in summary prospectuses for funds that use summary prospectuses), but the proposal does not limit the number of principal risks a fund may disclose. As an alternative, we could limit the number of principal risks a fund may disclose (*e.g.*, only 25 principal risks). This would streamline principal risk disclosure in a way that may make it easier for investors to digest and understand the most central risks of a fund investment. At the same time, this approach could potentially result in a fund understating its principal risks in some instances, which could mislead investors about the risks associated with an investment in the fund.

The proposed rule would provide that a principal risk is one that would place more than 10% of the fund's assets at risk (or it is reasonably likely that it would place more than 10% of the fund's assets at risk in the future). Alternatively, we could establish different numerical thresholds in the proposed instruction. For example, we could provide a lower percentage threshold of 5% or a higher percentage threshold of 15% for determining whether a risk is principal. Compared to the proposed approach, a higher percentage threshold would

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[843] *See supra* footnotes 63 and 573.

result in funds disclosing fewer principal risks and reduce the costs to funds of providing these disclosures, while a lower percentage threshold would result in funds disclosing more principal risks and increase the costs to funds of providing these disclosures. Fewer principal risks being disclosed could lead to disclosure that is overall more concise and that may require less time and resources for investors to understand, while more principal risks being disclosed could lead to disclosure that is overall less concise and that may require more time and resources for investors to understand. At the same time, decreasing the number of principal risks a fund discloses may increase the potential for an investor to be misled about the risks of investing in a particular fund, while increasing the number of principal risks a fund discloses may decrease the potential for an investor to be misled.

As another alternative, we could provide a qualitative standard or a "materiality" standard for funds to determine whether a risk is principal instead of a numerical-based standard. These alternatives may allow funds to tailor and adapt their principal risk disclosure better to different facts and circumstances, which could lead to more accurate identification of a fund's principal risks and may better account for non-investment related risks, such as cybersecurity risks and new fund risks. However, these alternatives may be less effective than the proposed approach in promoting more concise and focused principal risk disclosure. These alternatives also could lead to greater variation in principal risk disclosure across funds than the proposed approach, which may make it more difficult for investors to compare funds effectively when making investment decisions. In addition, it may be more costly for funds to evaluate whether a principal risk is material compared to evaluating whether the principal risk meets the proposed quantitative standard.

### 6. Amending Shareholder Report Requirements for Variable Insurance Contracts or Registered Closed-End Funds

The proposed shareholder report amendments apply only to funds registered on Form N-1A. The proposed amendments to shareholder reports do not apply to other registered management investment companies that transmit annual and semi-annual reports under rule 30e-1.[844] Alternatively, we could extend the shareholder report disclosure amendments to other registered management investment companies, including closed-end funds that register on Form N-2 and variable annuity separate accounts that register on Form N-3. Like shareholders in open-end funds registered on Form N-1A, shareholders in these other funds could benefit from more concise shareholder reports. However, the Commission has recently amended the disclosures that shareholders in these funds receive. For example, the recently adopted changes to closed-end fund disclosures include multiple changes to these funds' shareholder report disclosure.[845] Similarly, while the recently adopted changes to the variable insurance contract disclosure framework are focused more on prospectus disclosure and not shareholder report disclosure, we anticipate that these amendments would significantly change investors' experience with variable contract disclosure.[846] Because we lack information about shareholders' experiences with these new disclosure requirements, we would like to assess the

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[844] Although all registered management investment companies are subject to rule 30e-1, the information a registered management investment company must include in its shareholder report is specified in the relevant Investment Company Act registration statement form (*i.e.*, Forms N-1A, N-2, or Form N-3).

[845] *See supra* footnote 129.

[846] *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27.

impact of these changes prior to proposing additional disclosure changes for variable contracts or closed-end funds.

### 7. Requiring Funds to Comply with Proposed Rule 498B

Proposed rule 498B allows funds the option to deliver a notice of material changes to shareholders in lieu of delivering annual prospectus updates and prospectus stickers. Instead of providing funds with the option to rely on proposed rule 498B, we could require all affected funds to comply with the proposed rule.[847]

This alternative would have the benefit of creating a more consistent disclosure framework across funds and would result in fund shareholders generally receiving the same types of information from all funds. Under the proposal, prospectus delivery practices of funds would vary across funds depending on whether they choose to rely on rule 498B. We believe that the funds that choose not to rely on the rule would generally continue to deliver the annual prospectus update, while the funds that rely on rule 498B would not deliver the annual prospectus update and would instead provide to fund shareholders timely notification of material changes. Under this alternative, all fund shareholders would receive prompt notices of material changes to a fund and would not receive separate annual prospectus updates directly. This may benefit the shareholders of funds that otherwise would decline to

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[847] Under the proposed rule 498B, investors would continue to receive a prospectus in connection with their initial fund investment, as they do today. Thereafter, a shareholder would no longer receive annual prospectus updates, in light of the fact that the shareholder would be receiving tailored shareholder reports (which would include, in the annual report, a summary of material changes that occurred over the prior year), and timely notifications to shareholders pursuant to proposed rule 498B regarding material fund changes as they occur.

rely on rule 498B, to the extent that delivery of the more concise materials may allow them to make better-informed investment decisions.

However, this alternative may impose burdens on funds that would not otherwise choose to rely on the proposed rule. For example, funds that do not currently use summary prospectuses, including some smaller funds, may determine that the benefits of proposed rule 498B do not justify its costs since the rule would require funds to provide summary and statutory prospectuses and other information online. As a result, the alternative approach may impose greater costs on those funds, including some smaller funds, than on other funds. In addition, under the proposed amendments, all fund shareholders would receive information in the annual report about material fund changes. This uniform annual report disclosure would promote more consistent information for fund shareholders and thus facilitate better-informed investment decisions. In addition, we believe this proposed requirement would not lead to increased costs because of the optional nature of rule 498B for two reasons. First, funds currently tend to disclose more material changes in the annual prospectus update, and disclosure of these changes would generally appear in the proposed annual report for all funds. Second, for material changes that funds disclose through prospectus stickers, we expect that funds that do not rely on proposed rule 498B would continue to deliver prospectus stickers to notify shareholders of material changes.

### 8. Requiring Form N-CSR to be Tagged in Inline XBRL Format

The proposal would not change the format requirement for Form N-CSR, which is not required to be filed in a structured machine-readable format.[848] Alternatively, we could require

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[848] The Instructions to Form N-CSR do not prescribe a format requirement for submission of the

management investment companies (including open-end funds, registered closed-end funds, and some variable annuity separate accounts) to tag some or all of Form N-CSR in the structured machine-readable Inline XBRL format.[849] This requirement could include numerical detail tagging of the financial statements that would be included in Form N-CSR, as is currently required for operating company financial statements.[850] The requirement could also include text block tagging for narrative disclosures (such as the discussion of prior-year performance that is proposed to be included in the annual report for open-end funds and would thus be filed as part of Form N-CSR), as is currently required for principal risk disclosures in open-end fund prospectuses.[851]

Compared to the baseline (under which Form N-CSR is not required to be submitted in a structured machine-readable format), an Inline XBRL tagging requirement for Form N-CSR

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Form. As an EDGAR Form without a separate prescribed format, Form N-CSR is typically submitted in HTML (.htm) format. *See* Vol. 2, Sec. 5.1 of the EDGAR Filer Manual (Ver. 53, Jan. 2020).

849 Such a requirement would be implemented by revising 17 CFR part 232 [Regulation S-T] and adding an Instruction to Form N-CSR which cites to Regulation S-T. In conjunction with the EDGAR Filer Manual, Regulation S-T governs the electronic submission of documents filed with the Commission. Modifying a structured format requirement for a Commission filing or series of filings can generally be accomplished through changes to Regulation S-T, and would not require dispersed changes to the various rules and forms that would be impacted by the format modification.

850 Under the proposal, open-end funds would be required to file financial statements on Form N-CSR under proposed Item 7(a) of that Form. *See supra* Section II.D.1(a). Closed-end funds and variable annuity separate accounts that are management investment companies would still be required to include financial statements in their shareholder reports, which are filed on Form N-CSR under Item 1 of that Form.

851 Under the proposal, open-end funds would include a discussion of prior year performance pursuant to Item 27A(d) of Form N-1A. *See supra* Section II.B.2(c). In addition, registered closed-end funds will be required to include a similar discussion in their shareholder reports as of August 1, 2021. *See* Closed-End Fund Offering Reform Adopting Release, *supra* footnote 128, at Sections II.I.2 and II.J.

could benefit investors by enabling efficient retrieval, aggregation, and analysis of the information in Form N-CSR and by facilitating comparisons of that information across investment companies and time periods. There are studies suggesting that XBRL requirements increase the information content of prices, reduce the informational advantages held by insiders over public investors, heighten the relevance, understandability, and comparability of financial information for non-professional investors, and enhance the reports and recommendations published by financial analysts, thereby indirectly benefitting retail investors for whom such analysts represent a significant source of investment information.[852]

Requiring Inline XBRL tagging of Form N-CSR would impose additional filing preparation costs on management investment companies compared to the baseline. Currently, management investment companies are not required to tag their Form N-CSR filings in the Inline XBRL format. As such, this alternative would impose on management investment companies the incremental costs of tagging Form N-CSR disclosures, whether implemented

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[852] *See, e.g.*, Yuyun Huang, Yuan George Shan, & Joey Wenling Yang, *Effects of Information Processing Costs on Price Informativeness: Evidence from XBRL Mandate* (SSRN, 2019) *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3324198 ; Yu Cong, Jia Hao, & Lin Zou, *The Impact of XBRL Reporting on Market Efficiency*, 28 J. INFO. SYS. 181 (2014); Huang, Yuyun, Jerry T. Parwada, Yuan George Shan, and Joey (Wenling) Yang, *Insider Profitability and Public Information: Evidence from the XBRL Mandate* (SSRN, 2019) *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3455105; Jacqueline Birt, Kala Muthusamy, & Poonam Bir (2017), *XBRL and the Qualitative Characteristics of Useful Financial Information*, 30 ACCT. RES. J 107 (2017); Chunhui Liu, Tawei Wang, & Lee J. Yao, *XBRL's Impact on Analyst Forecast Behavior: An Empirical Study*, 33 J. ACCT. & PUB. POL'Y 69 (2014); Andrew J. Felo, Joung W. Kim, & Jee-Hae Lim, *Can XBRL Detailed Tagging of Footnotes Improve Financial Analysts' Information Environment?*, 28 INT'L J. ACCT. INFO. SYS. 45 (2018); Karam Kim, Doojin Ryu, & Heejin Yang, *Investor Sentiment, Stock Returns, and Analyst Recommendation Changes*, 48(2) INV. ANALYSTS J. 89 (2019); Alastair Lawrence, James Ryans, & Estelle Sun, *Investor Demand for Sell-Side Research*, 92 ACCT. REV. (2017). However, note that the studies listed here which assessed the impact of XBRL were based on operating company financial statement data, not mutual fund risk/return summary data.

using internal staff or external service providers. Such costs would be partially mitigated by the fact that management investment companies will be subject to Inline XBRL tagging requirements in other filings, independent of this proposal.[853] Consequently, the alternative of tagging Form N-CSR would not impose on management investment companies the Inline XBRL implementation costs that are often associated with being subject to an Inline XBRL requirement for the first time (such as the cost of training in-house staff to prepare filings in Inline XBRL, and the cost to license Inline XBRL filing preparation software from vendors).

However, as noted above, the primary objective of the proposed disclosure framework is to promote shareholder reports that assist existing shareholders in monitoring their fund investments, leaving information that is more useful for new and prospective investors to compare funds and make investment decisions to be retained in the fund prospectus.[854]

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[853] In 2009, the Commission adopted rules requiring mutual fund risk/return summaries to be submitted in an XBRL format entirely within an exhibit to a filing. See Interactive Data to Improve Financial Reporting, Release No. 33-9002 (Jan. 30, 2009) [74 FR 6776 (Feb. 10, 2009)] as corrected by Release No. 33-9002A (Apr. 1, 2009) [74 FR 15666 (Apr. 7, 2009)]. In 2018, the Commission refined the requirement to provide information in an XBRL format by requiring that, for fiscal periods ending on or after September 17, 2020 (for fund groups with at least $1 billion in assets under management) and September 17, 2021 (for all other fund groups), mutual fund filers submit this information using the Inline XBRL format, which embeds the tagged information in the document itself, rather than in an exhibit. See Inline XBRL Filing of Tagged Data, Release No. 33-10514 (June 28, 2018) [83 FR 40846 (Aug. 16, 2018)].

In 2020, the Commission adopted rules requiring certain closed-end fund prospectus disclosures to be tagged in Inline XBRL format for filings submitted on or after August 1, 2022 (for short-form eligible closed-end funds) and February 1, 2023 (for all other closed-end funds). *See* Closed-End Fund Offering Reform Adopting Release, *supra* footnote 128, at Sections II.I.1 and II.J. Also in 2020, the Commission adopted rules requiring certain variable insurance account prospectus disclosures to be tagged in Inline XBRL format for filings submitted on or after January 1, 2023. *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27.

[854] *See supra* Section II.A.2.

Because facilitating fund comparisons is one of the chief benefits of the Inline XBRL format, Inline XBRL requirements are likely more beneficial to investors in the context of prospectus disclosures rather than disclosures in periodic reports such as Form N-CSR. As such, the Commission has determined not to propose an Inline XBRL tagging requirement for Form N-CSR.

### 9. Modifying the AFFE Amendment

The proposal would allow some funds to disclose AFFE, the fees and expenses associated with acquired fund investments, in a footnote to the fee table and fee summary instead of reflecting the AFFE in the bottom line annual expenses in the fee table (as funds do today). Funds with investments in acquired funds that are limited to 10 percent or less of their total assets would be eligible to disclose AFFE in a footnote. Moving the AFFE information to a footnote to the fee table would enable the eligible funds to provide disclosures that investors may find easier to use in comparing the fees and expenses of funds with comparable investment strategies.

As alternatives, we could consider allowing more funds to move the AFFE disclosure into a footnote to the fee table by increasing the proposed eligibility threshold above 10%, such as to 50% or some other level, or by allowing all funds to move the AFFE disclosure into a footnote to the fee table, which may improve the salience of the expenses of the acquiring fund to investors. On the other hand, some funds may follow an investment strategy that leads them to incur significant expenses at a lower fund level, even where the fund does not have a majority of its assets invested in acquired funds. For those funds, moving the AFFE expenses into a footnote to the fee table may provide for expense disclosures that are less closely related to the expenses associated with the top-level fund's investment strategy. For example, some funds (such as certain target date funds) follow an investment strategy in which the

acquiring fund has very low, or no, management fees. For those funds, a fee table that does not include the AFFE amount may confuse investors as to the expenses associated with investment in the fund.[855] Therefore, we are proposing to limit eligibility for the proposed AFFE amendment to the more limited share of funds with 10% or less invested in acquired funds.

As another alternative, we could consider requiring all eligible funds to rely on the proposed AFFE amendments. This could make it easier for investors to compare similar funds because funds with acquired fund investments below the 10% threshold would all disclose AFFE in a footnote. It also could reduce investor uncertainty about how a fund is disclosing AFFE information. On the other hand, allowing funds to opt into reliance on the amendment would enable funds that have relatively low, or negative, net benefit from migrating to the footnote-based approach to opt out. Moreover, a mandatory approach could require funds that maintain acquired fund investments close to the 10% threshold to move AFFE disclosure back-and-forth between the fee table and an associated footnote over time, which could contribute to investor confusion.[856] Therefore, we are proposing to allow voluntary reliance on the proposed AFFE amendments.

### T. Request for Comment

We seek comment on the economic analysis, including whether the analysis has: (1) identified all benefits and costs, including all effects on efficiency, competition, and capital

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855 *See supra* footnote 816 (discussing some commenters' views on the importance of AFFE disclosure).

856 *See supra* paragraph accompanying footnote 621.

formation; (2) given due consideration to each benefit and cost, including each effect on efficiency, competition, and capital formation; and (3) identified and considered reasonable alternatives to the proposed rules. We request and encourage any interested person to submit comments regarding the proposed rules, our analysis of the potential effects of the proposed rules, and other matters that may have an effect on the proposed rules. We request that commenters identify sources of data and information as well as provide data and information to assist us in analyzing the economic consequences of the proposed rules and proposed amendments. We also are interested in comments on the qualitative benefits and costs we have identified and any benefits and costs we may have overlooked. In addition to our general request for comments on the economic analysis associated with the proposed rules and proposed amendments, we request specific comment on the following aspects of the proposal:

275. What effect would the proposal have on funds' delivery costs? Is our assessment correct that funds could use a trifold self-mailer, or a similar approach, to deliver a proposed shareholder report by mail? Why or why not? What alternatives to a trifold self-mailer might funds consider for delivering the proposed shareholder reports in paper to relevant shareholders? How would the planned mailing device affect the estimated benefits and costs of the proposal? Please provide quantitative information, if available.

276. We request comment on the costs to funds of the proposed requirement to prepare separate shareholder reports for each fund series. How would this requirement affect the cost to funds of preparing shareholder reports? Please answer this question separately for the transition cost and the ongoing costs of complying with this proposed requirement. Also please provide information on the additional costs to funds and other parties of delivering

separate reports for separate fund series to shareholders, beyond any costs of report preparation.

277. We request comment on the costs of the Commission's proposed clarification of the term "appropriate broad-based securities market index" for funds that are required to present their performance in relation to an "appropriate broad-based securities market index" in the management's discussion of fund performance section of the shareholder report. Would this proposed clarification result in increased index-licensing fees? To what extent would competition among index providers limit or otherwise affect these fees?

278. What fraction of shareholders currently request electronic delivery of fund disclosure?[857] Would the proposal cause an increase or decrease in this fraction relative to what would occur without the proposal? If so, explain and indicate the likely change. Provide supporting quantitative evidence, if available.

279. The proposal would affect financial intermediaries and other third parties that are involved in the distribution and use of the prospectus and shareholder reports, such as broker-dealers and third-party information providers. For each type of intermediary or third party, we are requesting comment on how many would be affected by the rule, the characteristics of those affected, and the consequences for retail investors. Please provide quantitative information, if available.

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[857] We understand that the Commission estimated that fifteen percent of investors in variable contracts have requested electronic delivery. *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 27, at n.1030 and accompanying text. There are sufficient differences between the market for investment in variable contracts and the market for investment in ETFs and mutual funds, that we believe the variable contract estimate is not a suitable indicator for the analysis of the present rule proposal.

280. The effect of changes in disclosure under the proposal would be limited to the extent that retail investors rely on third parties for information and advice in selecting among financial products, where those third parties use more information than the proposed shareholder reports and amended prospectus disclosure. We are requesting comment on how many, or what fraction, of retail investors rely on advice from such third parties in choosing among funds or in monitoring fund investments. We are also requesting comment on whether the presence of third parties whose advice is unaffected by the proposal would reduce the impact of the proposal. Please explain and provide empirical facts to support your response.

281. How frequently do funds currently deliver prospectus stickers to shareholders on average? Do funds typically deliver prospectus stickers separately, or together with other materials (*e.g.*, semi-annual reports)? What effects would proposed rule 498B, including the requirement to deliver prompt notices of certain material changes, have on funds' delivery costs?

282. Are our estimates of the compliance costs associated with the proposed amendments reasonable?

283. Is our assessment of the relative costs and benefits of the proposal to exclude open-end funds registered on Form N-1A from the scope of rule 30e-3 correct? Please provide qualitative or other information about the expected costs of delivering rule 30e-3 notices or complying with that rule more generally in light of funds' additional experience with the rule after its adoption. How do these costs compare to the expected costs of preparing and delivering the proposed shareholder reports?

284. We seek information that would help us quantify or otherwise qualitatively assess the benefits of the proposed rule, particularly the benefits for retail investors. Please

provide any data, studies, or other evidence that would allow us to quantify some or all of the benefits.

285. The proposal is designed to conserve the time and attention of retail investors, and other market participants, in using the disclosures that funds provide through prospectuses and shareholder reports. We do not, however, have reliable estimates of the value to investors of being able to use their time more efficiently under the proposal or being able to make more informed investment decisions. We are requesting comment on the effects of the proposal on the use of investor time and attention, the ability of investors to make informed investment decisions, and on the proposal's likely effects on welfare of retail investors. Please provide explanations to support your comments. Please also provide examples, where appropriate, and supporting evidence from analysis of quantitative data, where available.

286. The proposal is designed to increase the use of disclosures by retail investors. We seek comment on whether the benefit in terms of investor comprehension of the disclosures is likely to vary according to the disclosure format and, in particular, according to whether delivery occurs in the form of digital media. What is the empirical evidence? Please explain and provide documentation of any quantitative evidence that includes an explanation of the data sources and analysis methods.

287. We seek comment on whether, and to what extent, funds that have the option would choose to rely on the AFFE amendments that we are proposing. For example, for purposes of the economic analysis, we have assumed that all funds that are eligible for the AFFE amendment would choose to move their AFFE disclosure to a footnote of the fee table, if allowed to do so. It is possible that not all such funds would rely on the amendment,

however.[858] Are there conditions under which a fund that could move AFFE out of the fee table would choose not to do so? Please explain. Also please provide data or examples to support your answer.

288. The effects on investors of fund reliance on the proposed AFFE amendments would depend on how many funds rely on the AFFE amendment, and under what conditions. For example, we estimate that only funds with investments in acquired funds of less than 20% of total assets would likely spend time considering whether they would qualify for the AFFE amendment. We are requesting comment on the effects of the proposed amendment on funds and investors.

289. The effects on investors of the proposed change in the AFFE disclosure would depend on whether, and under what conditions, investors currently rely on the fund AFFE disclosure information. We are requesting comment on how investors and other market participants use the AFFE information that is disclosed currently. What is the evidence that investors and others rely on AFFE disclosures in making choices among funds? What is the evidence that the proposed changes would cause any difference in the way this information is used or the ease of its use by investors or other market participants? Please explain and provide supporting cites (or other background documentation).

290. We are requesting comments on whether there are any disparities between the likely effects of the advertising rule amendments on different financial products or

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858 *See supra* paragraph accompanying footnote 621 (recognizing that funds that tend to hold acquired fund investments near the 10% threshold may prefer to consistently disclose AFFE in the fee table to avoid moving the disclosure back-and-forth between a footnote and the table).

investments that could lead to differences in the effects of the proposed advertising rule amendments across products. We specifically seek comments on differences in the effects of the proposed advertising rule amendments between ETFs or mutual funds, on the one hand, and other types of registered investment companies, on the other.

291. We are not proposing to require Form N-CSR to be submitted in a structured machine-readable format. Should we require funds to submit some or all of Form N-CSR in a structured machine-readable format such as the Inline XBRL format? What would be the benefits and costs of such a requirement? Would any resulting benefits accrue to all types of investors (*e.g.*, retail investors and institutional investors)? Are there any particular disclosures which investors would benefit most from having access to in structured machine-readable format? Should a structured machine-readable format other than Inline XBRL, such as a custom XML format, be required for Form N-CSR?

292. Form N-CSR currently requires funds to disclose their name and Investment Company Act file number on the Form N-CSR cover page. Unlike the Investment Company Act file number, which is a Commission-specific identifier, the Legal Entity Identifier ("LEI") is used by numerous domestic and international regulatory regimes and could facilitate collection of information about a fund beyond the information disclosed in Commission filings.[859] Should we require a fund that has an LEI to disclose its LEI on the Form N-CSR cover page? What would be the costs and benefits of such an approach for investors and for funds? If the approach would provide informational benefits for investors, would retail

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[859] The LEI is also used by private market participants for risk management and operational efficiency purposes. *See* the LEI ROC's list of LEI uses at https://www.leiroc.org/lei/uses.htm.

investors realize such benefits? By making additional information available outside of the shareholder reports, would the added LEI requirement contribute to the layered disclosure framework discussed above?

293. Form N-CSR currently requires funds that disclose divested securities under Item 6.b of the Form to include the Committee on Uniform Securities Identification Procedures ("CUSIP") number for each divested security listed. Should we consider omitting Form N-CSR's requirement to provide a CUSIP number for each divested security? Why or why not? Should we permit funds to provide, in lieu of a CUSIP number, other identifiers such as a Financial Instrument Global Identifier (FIGI) for each security? Why or why not? Would permitting voluntary use of an alternate identifier have a beneficial effect for investors, funds, or users of the data?

## IV. PAPERWORK REDUCTION ACT ANALYSIS

### U. Introduction

Certain provisions of the proposed amendments contain "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995 ("PRA").[860] We are submitting the proposed collections of information to the Office of Management and Budget ("OMB") for review in accordance with the PRA.[861] The titles for the existing collections of information are: (1) "Form N-1A, Registration Statement under the Securities Act and under the Investment Company Act for Open-End Management Investment Companies" (OMB

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[860] 44 U.S.C. 3501 through 3521.

[861] 44 U.S.C. 3507(d); 5 CFR 1320.11.

Control No. 3235-0307);[862] (2) "Rule 30e-1 under the Investment Company Act, Reports to Stockholders of Management Companies" (OMB Control No. 3235-0025) (3) "Form N-CSR, Certified Shareholder Report under the Exchange Act and under the Investment Company Act for Registered Management Investment Companies"(OMB Control No. 3235-0570); (4) "Rule 30e-3 under the Investment Company Act, Internet Availability of Reports to Shareholders" (OMB Control No. 3235–0758); (5) "Rule 31a-2, Records to be Preserved by Registered Investment Companies, Certain Majority-Owned Subsidiaries thereof, and other Persons Having Transactions with Registered Investment Companies" (OMB Control No. 3235-0179); (6) "Rule 498 under the Securities Act of 1933, Summary Prospectuses for Open-End Management Investment Companies" (OMB Control No. 3235-0648); (7) "Rule 34b-1 under the Investment Company Act, Sales Literature Deemed to be Misleading" (OMB Control No. 3235-0346); (8) "Rule 433 under the Securities Act of 1933" (OMB Control No. 3235-0617); and (9) "Rule 482 under the Securities Act of 1933 Advertising by an Investment Company as Satisfying Requirements of Section 10" (OMB Control No. 3235-0565). We are also submitting a new collection of information for proposed rule 498B under the Securities Act to allow funds to rely on a new layered disclosure framework for prospectus delivery to existing shareholders, subject to certain conditions. The title for this new collection of information would be "Delivery of Prospectuses to Existing Shareholders of Open-End Management Investment Companies."

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[862] In addition to the amendments discussed below, we also are proposing amendments to Schedule 14A and Form N-14 to update certain cross references to the fee table in Form N-1A.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

We discuss below the collection of information burdens associated with proposed amendments to Form N-1A, rule 30e-1 under the Investment Company Act, and Form N-CSR. We also discuss proposed rule 498B and proposed amendments to rule 482 under the Securities Act, rule 34b-1 under the Investment Company Act, rule 433 under the Securities Act, and rule 30e-3 under the Investment Company Act. The Commission also intends to use two Feedback Fliers to obtain information from investors and funds about the proposed rule.[863] The Feedback Fliers are included in this proposal as Appendix B and Appendix C hereto.

## V. Form N-1A

In our most recent Paperwork Reduction Act submission for Form N-1A, we estimated for Form N-1A a total hour burden of 1,662,190 hours, and the total annual external cost burden is $131,338,208.[864] Compliance with the disclosure requirements of Form N-1A is mandatory, and the responses to the disclosure requirements will not be kept confidential.

The table below summarizes our PRA initial and ongoing annual burden estimates associated with the proposed amendments to Form N-1A.

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863 The Commission has determined that this usage is in the public interest and will protect investors, and therefore is not subject to the requirements of the Paperwork Reduction Act of 1995. *See* section 19(e) and (f) of the Securities Act. Additionally, for the purpose of developing and considering any potential rules relating to this rulemaking, the agency may gather from and communicate with investors or other members from the public. *See* section 19(e)(1) and (f) of the Securities Act.

864 This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2020.

**TABLE 9: FORM N-1A PRA ESTIMATES**

| | Initial hours | Annual hours[1] | | Wage rate[2] | Internal time costs | Annual external cost burden |
|---|---|---|---|---|---|---|
| **Revise fee table and fee and expense terminology** | 9 hours[3] | 5 hours[4] | × | $336 (blended rate for compliance attorney and senior programmer) | $1,680 | |
| **Revise risk disclosures** | 18 hours | 10 hours[5] | | $336 (blended rate for compliance attorney and senior programmer) | $3,360 | |
| **Remove rule 30e-3 legend[6]** | -1 | -0.33 hours | | $336 (blended rate for compliance attorney and senior programmer) | -$110.88 | |
| **Total new annual burden per fund** | | 14.67 hours | | | $4,929.12 | |
| **Number of funds** | | × 12,410 funds[7] | | | × 12,410 funds | |
| **Total new annual burden** | | 182,054.7 hours | | | $61,170,379.2 | $0 |
| **TOTAL ESTIMATED BURDENS INCLUDING AMENDMENTS** | | | | | | |
| **Current burden estimates** | | + 1,662,190 hours | | | | + $131,139,208 |
| **Revised burden estimates** | | 1,844,244.7 hours | | | | $131,139,208 |

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's Office Salaries in the Securities Industry 2013. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate is an average estimate across all Form N-1A registrants. This average estimate takes into account higher costs for certain funds that make investments in other funds. Additionally, we assume that a subset of such funds would conduct annual calculations to determine if they are eligible to use the proposed new AFFE presentation option.
4. Includes initial burden estimates annualized over a three-year period, plus 2 hours of ongoing annual burden hours. The estimate of 5 hours is based on the following calculation: ((9 initial hours /3) + 2 hours of additional ongoing burden hours) = 5 hours.
5. Includes initial burden estimates annualized over a three-year period, plus 4 hours of ongoing annual burden hours. The estimate of 10 hours is based on the following calculation: ((18 initial hours /3) + 4 hours of additional ongoing burden hours) = 10 hours
6. This amendment will decrease the burdens associated with Form N-1A.
7. Includes all open-end funds, including ETFs, registered on Form N-1A.

## W. Proposed New Shareholder Report Requirements under Rule 30e-1

We have previously estimated that it takes a total of 1,028,658 hours, and involves a total external cost burden of $147,750,391, to comply with the collection of information

associated with rule 30e-1.[865] Compliance with the disclosure requirements of rule 30e-1 is mandatory. Responses to the disclosure requirements are not kept confidential.

The table below summarizes our PRA initial and ongoing annual burden estimates associated with the proposed amendments to rule 30e-1.

**TABLE 10: RULE 30E-1 PRA ESTIMATES**

| | Internal initial burden hours | Internal annual burden hours[1] | | Wage rate[2] | Internal time costs | Annual external cost burden |
|---|---|---|---|---|---|---|
| **Prepare annual report pursuant to new Item 27A of Form N-1A** | 36 hours | 22 hours[3] | × | $336 (blended rate for compliance attorney and senior programmer) | $7,392 | |
| **Prepare semi-annual report pursuant to new Item 27A of Form N-1A** | 18 hours | 11 hours[4] | | $336 (blended rate for compliance attorney and senior programmer) | $3,696 | |
| **Website availability requirements** | 12 | 8 hours[5] | | $239 (webmaster) | $1,912 | |
| **Delivery upon request requirements** | | | | | | $500 |
| **Total additional burden per fund** | | 41 hours | | | $13,000 | |
| **Number of funds** | | × 12,410 funds[6] | | | × 12,410 funds | × 12,410 funds |
| **Total annual burden** | | 508,810 hours | | | $161,330,000 | $6,205,000 |
| **TOTAL ESTIMATED BURDENS INCLUDING AMENDMENTS** | | | | | | |
| **Current burden estimates** | | +1,028,658 | | | | +$147,750,391 |
| **Revised burden estimates** | | 1,537,468 | | | | $153,955,391 |

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in satisfying the proposed reporting requirements that we believe otherwise would be involved in preparing and filing shareholder reports. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumes that, after the initial 36 hours that a fund would spend preparing an annual report, which we annualize over a 3-year period, the fund would incur 10 additional burden hours associated with ongoing preparation of the shareholder report per year. The estimate of 22 hours is based on the following calculation: ((36 initial hours /3) + 10 hours of additional ongoing burden hours) = 22 hours.
4. This estimate assumes that, after the initial 18 hours that a fund would spend preparing a semi-annual report, which we annualize over a 3-year period, the fund would incur 5 additional burden hours associated with ongoing preparation of the semi-annual report per year. The

865 This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2019.

estimate of 11 hours is based on the following calculation: ((18 initial hours /3) + 5 hours of additional ongoing burden hours) = 11 hours.
5. This estimate assumes that, after the initial 12 hours that a fund would spend complying with these website availability requirements, which we annualize over a 3-year period, the fund would incur 4 additional burden hours associated with ongoing compliance with these website availability requirements per year. The estimate of 8 hours is based on the following calculation: ((12 initial hours /3) + 4 hours of additional ongoing burden hours) = 8 hours.
6. Includes all open-end funds, including ETFs, registered on Form N-1A.

## X. Form N-CSR

In our most recent Paperwork Reduction Act submission for Form N-CSR, we estimated the annual compliance burden to comply with the collection of information requirement of Form N-CSR is 179,443 burden hours with an internal cost burden of $57,723,571, and an external cost burden estimate of $3,129,984.[866] Compliance with the disclosure requirements of Form N-CSR is mandatory, and the responses to the disclosure requirements will not be kept confidential.

The table below summarizes our PRA initial and ongoing annual burden estimates associated with the proposed amendments to Form N-CSR.

TABLE 11: FORM N-CSR PRA ESTIMATES

| | Internal initial burden hours | Internal annual burden hours[1] | Wage Rate[2] | Internal Time Costs | Annual external cost burden |
|---|---|---|---|---|---|
| PROPOSED ESTIMATES FOR INITIAL N-CSR FILINGS | | | | | |

866 This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2018.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total additional burden per filing (proposed new Items 7-11 of Form N-CSR)** | 18 hours | 11 hours[3] | × | $336 (blended rate for compliance attorney and senior programmer) | $3,696 | -- |
| **Number of filings** | | ×24,820[4] | | | × 24,820 | |
| **Total additional burden for Form N-CSR** | | 273,020 hours | | | $91,743,720 | – |
| TOTAL ESTIMATED BURDENS INCLUDING AMENDMENTS | | | | | | |
| **Current burden estimates** | | +179,443 hours | | | | $3,129,984 |
| **Revised burden estimates** | | 452,463 hours | | | | $3,129,984 |

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in satisfying the proposed reporting requirements that we believe otherwise would be involved in preparing and filing Form N-CSR. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumes that, after the initial 18 hours that a fund would spend preparing the new items on Form N-CSR, which we annualize over a 3-year period, the fund would incur 5 additional burden hours associated with ongoing preparation of these items per year. The estimate of 11 hours is based on the following calculation: ((18 initial hours / 3) + 5 hours of additional ongoing burden hours) = 11 hours.
4. Funds make two filings on Form N-CSR annually. Therefore, this estimate is based on the following calculation: 12,410 funds x 2 = 24,820 filings.

## Y. Proposed Rule 498B

Proposed rule 498B would address shareholders' continued receipt of annual prospectus updates in the years following their initial investment in a fund and uses layered disclosure concepts to tailor funds' required disclosures to the informational needs of different types of investors.[867] Under the proposed rule, investors would continue to receive a prospectus in connection with their initial fund investment, as they do today. Thereafter, a shareholder would no longer receive annual prospectus updates, in light of the fact that the shareholder would be receiving tailored shareholder reports (which would include, in the annual report, a summary of material changes that occurred over the prior year), and timely notifications to shareholders pursuant to proposed rule 498B regarding material fund changes

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867 *See supra* section II.F.

as they occur. Reliance on the rule is voluntary; however, compliance with the rule's conditions is mandatory for funds relying on the rule. Responses to the information collections would not be kept confidential.

Because a fund's reliance on proposed rule 498B would be voluntary, the percentage of funds that would choose to rely on the rule is uncertain. We generally anticipate that the proposed rule would provide costs savings to funds, and so we assume that the vast majority of funds would rely on rule 498B to satisfy their prospectus delivery obligations.[868] For purposes of this estimate, we assume that funds that currently rely on rule 498 generally would rely on proposed rule 498B. We believe this assumption is appropriate because funds that rely on rule 498 are funds that have already chosen to rely on a rule that provides an alternative means of satisfying prospectus delivery obligations, and because certain of the conditions of proposed rule 498B overlap with similar conditions to rely on rule 498.[869] Therefore, we assume that these funds would experience some efficiencies in coming into compliance with proposed rule 498B. Based on these assumptions, we estimate that 90% of mutual funds and ETFs would choose to rely on rule 498B.[870]

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868 *See supra* section III.C.2.d (discussing the anticipated cost savings associated with rule 498B).

869 For example, the set of documents that funds relying on 498B must post online would be identical to the set of documents that are publicly accessible online for funds currently relying on rule 498. Therefore, for funds currently relying on 498, there would be no added burden to comply with this requirement.

870 We estimate that 93% of funds use summary prospectuses. *See supra* footnote 12. Funds that use summary prospectuses under rule 498 already meet several of the conditions of proposed rule 498B, which we believe would lead most of these funds to rely on proposed rule 498B due to the lower compliance costs of relying on the new rule. As a result, and to simplify our calculations, we estimate that 90% of funds would rely on proposed rule 498B.

The table below summarizes the proposed estimates for internal and external burdens associated with this new requirement under rule 498B:

**TABLE 12: RULE 498B PRA ESTIMATES**

| | Internal initial hour burden | Internal annual burden hours[1] | Wage rate[2] | Internal time costs | Annual external cost |
|---|---|---|---|---|---|
| **Preparation of notice of material changes** | 12 hours | 8 hours[3] | $336 (blended rate for compliance attorney and senior programmer) | $2,688 | |
| **Preparation of summary prospectus[4]** | 30 hours | 20 hours[5] | $336 (blended rate for compliance attorney and senior programmer) | $6,720 | |
| **Website availability requirements[6]** | 12 hours | 8 hours[7] | $239 (webmaster) | $1,912 | |
| **Delivery Upon Request** | | | | | $500 |
| **Total Burden per Registrant** | | 36 hours | | $11,320 | $500 |
| **Number of registrants** | | × 11,169 funds8 | | × 11,169 funds | × 11,169 funds |
| TOTAL ESTIMATED BURDENS | | | | | |
| **Total annual burden** | | 402,084 hours | | $126,433,080 | $5,584,500 |

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in preparing these notices that we believe otherwise would be involved in preparing a fund's other regulatory filings. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumes that, after the initial 12 hours that a fund would spend complying with the requirement to prepare the required notices of material changes, which we annualize over a 3-year period, the fund would incur 4 additional burden hour associated with this requirement per year. The estimate of 8 hours is based on the following calculation: ((12 initial hours /3) + 4 additional ongoing burden hours) = 8 hours.
4. For purposes of this PRA, we assume that all funds that chose to rely on rule 498B will incur the costs of preparing a summary prospectus. We recognize, however, that this may be an overestimation to the extent that these funds already prepare a summary prospectus because they rely on rule 498.
5. This estimate assumes that, after the initial 30 hours that a fund would spend preparing its summary prospectus, which we annualized over a 3-year period, the fund would incur an additional 10 burden hours associated with ongoing preparation of a summary prospectus per year. The estimate of 20 hours is based on the following calculation: ((30 initial hours /3) + 10 hours of additional ongoing burden hours) = 20 hours.
6. For purposes of this PRA, we assume that all funds that choose to rely on rule 498B will incur the costs of complying with the website availability requirements. We recognize, however, that this may be an overestimation because the set of documents that funds relying on 498B must post online would be identical to the set of documents that are publicly accessible online for funds currently relying on rule 498. Therefore, for funds currently relying on 498, there would be no added burden to comply with this requirement.
7. This estimate assumes that, after the initial 12 hours that a fund would spend complying with the website availability requirements, which we annualize over a 3-year period, the fund would incur 4 additional burden hours associated with ongoing compliance with these website availability requirements per year. The estimate of 8 is based on the following calculation: ((12 initial hours /3) + 4 hour of additional ongoing burden hours) = 8 hours.
8. We assume that 90% of 12,410 funds registered on Form N-1A will rely on rule 498B. 90% x 12,410 = 11,169.

### Z. Rule 482

In our most recent Paperwork Reduction Act submission for rule 482, we estimated the annual burden to comply with rule 482's information collection requirements to be 278,161 hours, with a time cost of $76,702,895, and with no annual external cost burden.[871] Compliance with the requirements of rule 482 is mandatory, and responses to the information collections would not be kept confidential.

We estimate that 36,994 responses to rule 482 are filed annually.[872] We estimate that approximately 96% of the rule 482 responses provide fee and expense figures in qualifying advertisements and would, therefore, be required to comply with the proposed amendments regarding such information (for example, ensuring that the fee and expense figures are presented in accordance with the prominence and timeliness requirements in the proposed amendments to rule 482). Similarly, we estimate that 96% of the responses to rule 482 provide advertisements that include information regarding a fund's total annual expenses and would, therefore, have to comply with the proposed amendments regarding such information.

The table below summarizes the proposed estimates for internal burdens associated with this new requirement under rule 482:

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871 This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2017.

872 In 2019, there were 41,003 responses to rule 482 filed with FINRA and 262 responses filed with the Commission in 2019. Of those, 4,271 were responses from closed-end funds and BDCs. We assume that, moving forward, closed-end funds and BDCs will choose to use free writing prospectuses under rule 433. Therefore, we excluded closed-end funds or BDCs from the total responses to rule 482.

### TABLE 13: RULE 482 PRA ESTIMATES

| | Internal initial hour burdens | Internal annual burden[1] | Wage Rate[2] | Internal Time Costs |
|---|---|---|---|---|
| **PROPOSED ESTIMATES FOR RULE 482** | | | | |
| **New general requirements re: fee and expense figure disclosure** | 9 hours | 6 hours[3] | $336 (blended rate for compliance attorney and senior programmer) | $2,016 |
| **Number of responses to rule 482 that include fee/expense figure disclosure** | | x 35,514 responses | | x 35,514 responses |
| **Total burden of new requirements for fee and expense disclosure** | | 213,084 hours | | $71,596,224 |
| **New requirements for disclosure of fee waivers/expense reimbursement arrangements** | 6 hours | 4 hours[4] | $336 (blended rate for compliance attorney and senior programmer) | $1,344 |
| **Number of responses to rule 482 that disclose fee waivers/expense reimbursement arrangements** | | x 35,514 responses | | x 35,514 responses |
| **Total burden of annual requirements for disclosure of fee waivers/expense reimbursement arrangements** | | 142,056 hours | - | $47,730,816 |
| **Total annual burden** | | 355,140 hours | | $119,327,040 |
| **TOTAL ESTIMATED BURDENS INCLUDING AMENDMENTS** | | | | |
| **Current burden estimates** | | 278,161 hours | | $76,702,895 |
| **Revised burden estimate** | | 633,301 hours | | $196,029,935 |

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in preparing these notices that we believe otherwise would be involved in preparing a fund's advertisements. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumes that, after the initial 9 hours that an entity would spend on the proposed fee and expense disclosure, which we annualize over a 3-year period, the entity would incur 3 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 6 hours is based on the following calculation: ((9 initial hours /3) + 3 hours of additional ongoing burden hours) = 6 hours.
4. This estimate assumes that, after the initial 6 hours that an entity would spend on the proposed fee waiver and expense reimbursement requirements, which we annualized over a 3-year period, the entity would incur 2 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 4 hours is based on the following calculation ((6 initial hours/ 3) + 2 hour of additional ongoing burden hours) = 4 hours.

## AA. Rule 34b-1

To apply the same fee and expense-related requirements consistently across all registered investment company and BDC advertisements and supplemental sales literature, we

are proposing to amend rules 34b-1 in a manner that mirrors our proposed amendments to rule 482.[873]

We estimate that 351 responses to rule 34b-1 are filed annually.[874] We estimate that approximately 96% of the rule 34b-1 responses provide fee and expense figures in qualifying advertisements and would, therefore, be required to comply with the proposed amendments regarding such information. Similarly, we estimate that 96% of the responses to rule 34b-1 provide advertisements that include information regarding a fund's total annual expenses and would, therefore, have to comply with the proposed amendments regarding such information.

In our most recent Paperwork Reduction Act submission for rule 34b-1, we estimated the annual compliance burden to comply with the collection of information requirement in rule 34b-1 is 26,008 hours, with an internal cost burden of $7.3 million.[875] There is no annual external cost burden attributed to rule 34b-1. Compliance with the requirements of rule 34b-1 is mandatory and the responses to the information collections would not be kept confidential. The table below summarizes the proposed estimates for internal burdens associated with this new requirement under rule 34b-1.

**TABLE 14: RULE 34B-1 PRA ESTIMATES**

| | Internal initial burden hours | Internal annual hour burden[1] | Wage Rate[2] | Internal Time Costs |
|---|---|---|---|---|
| **PROPOSED ESTIMATES FOR RULE 34B-1** | | | | |
| New general requirements re: fee and expense figure disclosure | 9 hours | 6 hours[3] | $336 (blended rate for compliance attorney and | $2,016 |

873 *See supra* Section II.I.

874 The estimated number of responses filed with the Commission in 2019.

875 This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2018.

| | | | | |
|---|---|---|---|---|
| Number of responses to rule 34b-1 that include fee/expense figure disclosure | | x 337 responses | senior programmer) | x 337 responses |
| Total annual burden of new requirements for fee and expense disclosure | | 2,022 hours | | $679,392 |
| New requirements for disclosure of fee waivers/expense reimbursement arrangements | 6 hour | 4 hours[4] | $336 (blended rate for compliance attorney and senior programmer) | $1,344 |
| Number of responses to rule 34b-1 that disclose fee waivers/expense reimbursement arrangements | | x 337 responses | | x 337 responses |
| Total annual burden of requirements for disclosure of fee waivers/expense reimbursement arrangements | | 1,348 hours | | $452,928 |
| **Total annual burden** | | 3,370 hours | | $1,132,320 |
| TOTAL ESTIMATED BURDENS INCLUDING AMENDMENTS | | | | |
| **Current burden estimates** | | 26,008 hours | | $7,300,000 |
| **Revised burden estimate** | | 29,378 | | $8,432,320 |

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in preparing these notices that we believe otherwise would be involved in preparing a fund's advertisements. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's Office Salaries in the Securities Industry 2013. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumes that, after the initial 9 hours that an entity would spend on the proposed fee and expense disclosure, which we annualize over a 3-year period, the entity would incur 3 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 6 hours is based on the following calculation: ((9 initial hours /3) + 3 hours of additional ongoing burden hours) = 6 hours.
4. This estimate assumes that, after the initial 6 hours that an entity would spend on the proposed fee waiver and expense reimbursement requirements, which we annualized over a 3-year period, the entity would incur 2 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 4 hours is based on the following calculation ((6 initial hours/ 3) + 2 hours of additional ongoing burden hours) = 4 hours.

### BB. Rule 433

We are proposing to amend rule 433 to require a registered closed-end fund or BDC free writing prospectus to comply with the proposed content, presentation, and timeliness requirements of proposed rule 482, as applicable, if the free writing prospectus includes fee and expense information.[876] As a result, regardless of whether a registered closed-end fund or

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876 *See supra* Section II.I.

BDC advertisement uses rule 482 or rule 433, the advertisement would be subject to the same requirements regarding fee and expense information.[877] Compliance with the requirements of rule 433 is mandatory and the responses to the information collections would not be kept confidential.

In our most recent Paperwork Reduction Act submission for rule 433, we estimated the annual compliance burden to comply with the collection of information requirement rule 433 is 6,391 hours, at a time cost of $7,668,800, and an external cost burden estimate of $7,669,017.[878] As part of that rulemaking, we also estimated that there will be 791 closed-end funds and BDCs filing approximately 4,271 free writing prospectuses.

We estimate that approximately 96% of the 4,271 responses provide fee and expense figures in free writing prospectuses and would, therefore, be required to comply with the proposed amendments regarding such information. Similarly, we estimate that 96% of these responses would include information regarding a fund's total annual expenses and would, therefore, have to comply with the proposed amendments regarding such information.

The table below summarizes the proposed estimates for internal burdens associated with this new requirement under rule 433:

**TABLE 15: RULE 433 PRA ESTIMATES**

| | Internal initial burden hours[1] | Internal annual hour burden | Wage rate[2] | Internal time costs | External costs |
|---|---|---|---|---|---|
| **PROPOSED ESTIMATES FOR RULE 433** | | | | | |

877 *See supra* footnote 872 (noting that, for purposes of the PRA for rule 482, we excluded responses from closed-end funds and BDC).

878 This estimate is based on the last time the rule's information collection was submitted in 2020. *See* Securities Offering Reform for Closed-End Investment Companies, Investment Company Act Release No. 33836 (Apr. 8, 2020).

| | | | | | |
|---|---|---|---|---|---|
| New general requirements re: fee and expense figure disclosure | 9 hours | 6 hours[3] | $336 (blended rate for compliance attorney and senior programmer) | $2,016 | |
| Number of responses to rule 433 that include fee/expense figure disclosure | | x 4,100 responses | | x 4,100 responses | |
| Total burden of new requirements for fee and expense disclosure | | 24,600 hours | | $8,265,600 | |
| New requirements for disclosure of fee waivers/expense reimbursement arrangements | 6 hours | 4 hours[4] | $336 (blended rate for compliance attorney and senior programmer) | $1,344 | |
| Number of responses to rule 433 that disclose fee waivers/expense reimbursement arrangements | | x 4,100 responses | - | x 4,100 responses | |
| Total burden of annual requirements for disclosure of fee waivers/expense reimbursement arrangements | | 16,400 hours | | $5,510,400 | |
| **Total annual burden** | | 41,000 hours | | $13,776,000 | |
| TOTAL ESTIMATED BURDENS INCLUDING AMENDMENTS | | | | | |
| **Current burden estimates** | | 6,391 hours | | $7,668,800 | $7,669,017 |
| **Revised burden estimate** | | 47,391 hours | | $21,444,800 | $7,669,017 |

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in preparing these notices that we believe otherwise would be involved in preparing a fund's advertisements. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumes that, after the initial 9 hours that an entity would spend on the proposed fee and expense disclosure, which we annualize over a 3-year period, the entity would incur 3 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 6 hours is based on the following calculation: ((9 initial hours /3) + 3 hours of additional ongoing burden hours) = 6 hours.
4. This estimate assumes that, after the initial 6 hours that an entity would spend on the proposed fee waiver and expense reimbursement requirements, which we annualized over a 3-year period, the entity would incur 2 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 4 hours is based on the following calculation ((6 initial hours/ 3) + 2 hour of additional ongoing burden hours) = 4 hours.

## CC. Rule 30e-3

We are proposing to amend the scope of rule 30e-3 to exclude investment companies registered on Form N-1A.[879] Because our proposed amendment would decrease the number of funds that would be able to rely on rule 30e-3, we are updating the PRA analysis for rule 30e-3 to account for any burden decrease that would result from this decrease in respondents. We

[879] *See supra* section II.G.

are not updating the rule 30e-3 PRA analysis in any other respect. Reliance on the rule is voluntary; however, compliance with the rule's conditions is mandatory for funds relying on the rule. Responses to the information collections would not be kept confidential.

Under current PRA estimates for rule 30e-3, we estimated that complying with the information collection requirements of rule 30e-3 would impose an average total annual hour burden of about 8,866 hours and an external cost burden estimate of $76,038 on funds that choose to rely on rule 30e-3. [880] Of those costs, we estimated that 24,459.4 hours, at a time cost of $8,674,306, and an external cost of $69,965,020, were attributed to the compliance costs of open-end funds registered on Form N-1A. The table below summarizes these revisions to the estimated annual responses, burden hours, and burden-hour costs based on the proposed amendment to the scope of rule 30e-3.

TABLE 16: RULE 30E-3 PRA ESTIMATES

| | Previously estimated annual internal hour burden[1] | Updated estimated annual internal hour burden | Previously estimated annual internal burden time cost | Updated estimated annual internal time burden cost | Previously estimated annual external cost burden | Updated estimated annual external cost burden |
|---|---|---|---|---|---|---|
| **Total annual burden** | 28,758 hours | 3,298.6 hours | $9.8 million | $1,125,694 | $79,031,220 | $9,066,200 |

Notes:
1. The estimated burdens and costs in this table are based on an estimate of 11,367 funds relying on rule 30e-3, of which 10,063 are open end investment companies registered on Form N-1A.

## DD. Rule 498

Rule 498 under the Securities Act permits funds to satisfy their prospectus delivery obligations under the Securities Act by sending or giving investors the fund's summary

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880 This estimate is based on the last time the rule's information collection was submitted in connection with the adoption of rule 30e-3 in 2019.

prospectus and providing the statutory prospectus on a website. Reliance on the rule is voluntary; however, compliance with the rule's conditions is mandatory for funds relying on the rule. Responses to the information collections would not be kept confidential.

We are proposing to amend the scope of rule 30e-3 to exclude investment companies registered on Form N-1A. Because our proposed amendments would decrease the number of funds that would be able to rely on rule 30e-3, we are updating the PRA analysis for rule 498 to account for that change. We are not updating the rule 498 PRA analysis in any other respect.

Under current PRA estimates for rule 498, we estimated that complying with the information collection requirements of rule 498 would impose an average total annual hour burden of about 20,327 burden hours, at a time cost of $5.8 million, and an annual external cost burden of $167,458,800. Of those costs, we estimated that the amortized aggregate annual hour burden associated with the rule 30e-3 amendments to rule 498 was 4,529 hours, at a time cost of $1,286,236. We estimated that the external costs of rule 498 did not change as a result of the rule 30e-3 amendments. The table below summarizes our proposed revisions to the estimated burden hours, and burden-hour costs based on the proposed amendment to the scope of rule 30e-3.

**TABLE 17: RULE 498 PRA ESTIMATES**

| | Previously estimated annual internal hour burden[1] | Updated estimated annual internal hour burden[2] | Previously estimated annual internal burden time cost | Updated estimated annual internal time burden cost | Previously estimated annual external cost burden | Updated estimated annual external cost burden |
|---|---|---|---|---|---|---|
| **Total annual burden** | 20,327 hours | 15,798 hours | $5.8 million | $4,513,764 | $167,458,800 | $167,458,800 |

### EE. Request for Comment

We request comment on whether these estimates are reasonable. Pursuant to 44 U.S.C. 3506(c)(2)(B), the Commission solicits comments in order to: (1) evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information will have practical utility; (2) evaluate the accuracy of the Commission's estimate of the burden of the proposed collection of information; (3) determine whether there are ways to enhance the quality, utility, and clarity of the information to be collected; and (4) determine whether there are ways to minimize the burden of the collection of information on those who are to respond, including through the use of automated collection techniques or other forms of information technology.

Persons wishing to submit comments on the collection of information requirements of the proposed amendments should direct them to the OMB Desk Officer for the Securities and Exchange Commission, MBX.OMB.OIRA.SEC_desk_officer@omb.eop.gov, and should send a copy to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090, with reference to File No. S7-09-20. OMB is required to make a decision concerning the collections of information between 30 and 60 days after publication of this release; therefore a comment to OMB is best assured of having its full effect if OMB receives it within 30 days after publication of this release. Requests for materials submitted to OMB by the Commission with regard to these collections of information should be in writing, refer to File No. S7-09-20, and be submitted to the Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE, Washington, DC 20549-2736.

## V. INITIAL REGULATORY FLEXIBILITY ACT ANALYSIS

This Initial Regulatory Flexibility Analysis ("IRFA") has been prepared in accordance with section 3 of the Regulatory Flexibility Act ("RFA").[881] It relates to: the proposed amendments to funds' annual and semi-annual report requirements, proposed new Form N-CSR requirements, and proposed new website posting requirements; the treatment of annual prospectus updates for existing fund shareholders under proposed rule 498B; the proposed amendments to fund prospectus disclosure requirements; the proposed investment company advertising rule amendments; and the proposed technical and conforming amendments.

**FF. Reasons for and Objectives of the Proposed Actions**

The Commission is proposing a new rule, rule amendments, and form amendments that would create a simplified disclosure framework for mutual funds and exchange-traded funds to highlight key information for investors. Under the proposed amendments, fund investors would continue to receive fund prospectuses in connection with their initial investment in a fund, as they do today. On an ongoing basis thereafter, the investors would receive more concise and visually engaging annual and semi-annual reports designed to highlight information that we believe is particularly important for retail shareholders to assess and monitor their ongoing fund investments. The fund's shareholder reports would serve as the primary fund disclosures that existing shareholders receive each year, in addition to notices of certain material changes if they occur during the year. The proposal would promote a layered disclosure framework that would complement the shareholder reports by continuing to make available additional information that may be of interest to some investors, including

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[881] 5 U.S.C. 603.

the fund's financial statements. This information would be available online, reported on Form N-CSR, and delivered to an investor on request, free of charge. We also propose to provide funds the flexibility to make electronic versions of their shareholder reports more user-friendly and interactive. Under the proposal, mutual funds and exchange-traded funds would no longer be permitted to rely on rule 30e-3 to satisfy shareholder report transmittal requirements, in order to promote the provision of consistent disclosure that we believe is best tailored to investors' informational needs. While it is currently common for fund shareholders to receive an updated annual prospectus each year, the proposal's layered disclosure approach would instead rely on shareholder reports (which, in the case of the annual report, would include a summary of material changes that occurred over the prior year), as well as the online availability of the fund prospectus and timely notifications to shareholders regarding material fund changes as they occur, to keep investors informed about their ongoing fund investments. In addition, we are proposing amendments to certain mutual fund and ETF prospectus disclosure requirements, which are designed to improve the presentation of fund fees and expenses and principal risks to help investors better understand this important information. To improve fee- and expense-related information more broadly, we further propose to amend investment company advertising rules to promote more transparent and balanced statements about investment costs. The proposed advertising rule amendments would affect all registered investment companies and BDCs.

### GG. Legal Basis

The Commission is proposing the rules and forms contained in this document under the authority set forth in the Securities Act, particularly, section 19 thereof [15 U.S.C. *77a et seq*.], the Exchange Act, particularly, sections 13, 23, and 35A thereof [15 U.S.C. 78a *et seq*.],

the Investment Company Act, particularly, sections 8, 24, 30, and 38 thereof [15 U.S.C. 80a *et seq*.], and 44 U.S.C. 3506, 3507.

### HH. Small Entities Subject to the Rule

For purposes of Commission rulemaking in connection with the Regulatory Flexibility Act, an investment company is a small entity if, together with other investment companies in the same group of related investment companies, it has net assets of $50 million or less as of the end of its most recent fiscal year.[882] Commission staff estimates that, as of June 2019, approximately 50 open-end funds (including 8 ETFs), 33 closed-end funds, and 16 BDCs are small entities.

### II. Projected Reporting, Recordkeeping, and Other Compliance Requirements

#### 1. Annual and Semi-Annual Reports

We propose to tailor the disclosure requirements for funds' annual and semi-annual reports to help shareholders focus on key information that we believe is most useful for assessing and monitoring fund investments on an ongoing basis, including information about a fund's expenses, portfolio holdings, and performance. Among other things, shareholder reports would be revised to include new disclosures (such as material changes and fund statistics in annual reports), simplify certain disclosures (such as the MDFP in annual reports), and remove certain disclosures (such as financial statements currently found in semi-annual

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882 17 CFR 270.0-10(a). Recognizing the growth in assets under management in investment companies since rule 0-10(a) was adopted, the Commission plans to revisit the definition of a small entity in rule 0-10(a).

and annual reports).[883] We also propose to improve the design of funds' shareholder reports by, for example, encouraging funds to use features that promote effective communications (*e.g.*, tables, charts, bullet lists, question-and-answer formats) and permitting funds to use technology to enhance an investor's understanding of material in electronic versions of shareholder reports.

We estimate that approximately 50 funds are small entities that are required to prepare and transmit shareholder reports under the proposed rules.[884] We expect the proposed amendments would result in some initial implementation costs but, going forward, would reduce the burdens associated with these existing disclosure requirements related to shareholder reports. We estimate that preparing amended annual report disclosure would cost $12,096 for each fund, including small entities, in its first year of compliance, and $3,360 for each subsequent year.[885] We further estimate that preparing amended semi-annual report disclosure would cost $6,048 for each fund, including small entities, in its first year of compliance, and $1,680 for each subsequent year.[886]

**2. New Form N-CSR and Website Availability Requirements**

We propose a layered disclosure framework that would complement the proposed shareholder report requirements by continuing to make available to investors additional, less retail-focused information, including the fund's financial statements. This additional

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883 *See supra* Sections II.B.2 and II.C.1.

884 *See* text following *supra* footnote 882.

885 *See supra* footnote 804 and accompanying text.

886 *See supra* footnote 805 and accompanying text.

information, which we believe would primarily benefit financial professionals and other investors who desire more in-depth information, would be available online, reported on Form N-CSR, and delivered to an investor on request, free of charge.[887] This new Form N-CSR disclosure also would need to be available on the website specified on the cover page or at the beginning of the fund's annual report and delivered in paper or electronically upon request, free of charge.[888]

We estimate that approximately 50 funds are small entities that would be required to comply with the proposed new Form N-CSR and website posting requirements.[889] We further estimate that complying with the new Form N-CSR and website posting requirements would cost $8,916 for each fund, including small entities, in its first year of compliance, and $2,636 for each subsequent year.[890]

#### 3. Proposed Rule 498B, and Treatment of Annual Prospectus Updates under Proposed Disclosure Framework

Proposed rule 498B uses layered disclosure concepts to tailor funds' required disclosures to the informational needs of different types of investors. Under the proposed rule, investors would continue to receive a prospectus in connection with their initial fund investment, as they do today. Thereafter, a shareholder would no longer receive annual prospectus updates, in light of the fact that the shareholder would be receiving a tailored shareholder report (which in the case of the annual report would include a summary of

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887 *See supra* Sections II.B through II.C.

888 *See supra* Section II.B.3.

889 *See* text following footnote 882.

890 *See supra* footnotes 806 and 808 and accompanying text.

material changes that occurred over the prior year), and timely notifications to shareholders regarding material fund changes as they occur, which would be required under rule 498B.[891]

We estimate that approximately 50 funds are small entities that are required to send or give prospectuses to satisfy prospectus delivery obligations under the Securities Act.[892] A fund's reliance on proposed rule 498B would be voluntary, so the percentage of funds that would choose to rely on the rule is uncertain. Because we generally anticipate that the proposed rule would provide costs savings to funds, we assume that the vast majority of funds would rely on rule 498B to satisfy their prospectus delivery obligations.[893] For purposes of this estimate, we assume that 90% of funds, including small funds, would rely on proposed rule 498B, which is roughly the same percentage of funds that currently rely on rule 498.[894] We believe this assumption is appropriate because funds that rely on rule 498 are funds that have already chosen to rely on a rule that provides an alternative means of satisfying prospectus delivery obligations, and because certain of the conditions of proposed rule 498B overlap with similar conditions to rely on rule 498. Therefore, we assume that these funds would experience some efficiencies in coming into compliance with proposed rule 498B. Based on these assumptions, we estimate that approximately 45 small funds would choose to rely on proposed rule 498B.[895]

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891 *See supra* Section II.D.

892 *See* text following footnote 883.

893 *See supra* footnote 868 and accompanying text.

894 *See supra* footnote 870 (estimating that 93% of funds currently rely on rule 498).

895 *See supra* text following footnote 872. Our estimate of 45 funds is based on the following calculation: 50 funds x 90% = 45 funds.

We estimate that preparing notices of material changes under proposed rule 498B would cost $4,032 for each fund, including small entities, in its first year, and $1,344 per year for each subsequent year.[896] Further, if a fund does not currently rely on rule 498, we estimate additional compliance costs with the website availability requirements and the requirement to prepare a summary prospectus of $12,948 per fund in its first year and $4,316 per fund for each subsequent year.[897]

#### 4. Amendments to Scope of Rule 30e-3

Subject to conditions, rule 30e-3 generally permits investment companies to satisfy shareholder report transmission requirements by making these reports and other materials available online and providing a notice of the reports' online availability instead of directly mailing the report (or emailing an electronic version of the report) to shareholders. We are proposing to amend the scope of rule 30e-3 to exclude investment companies registered on Form N-1A, which would be sending tailored shareholder reports under the proposal. This proposed amendment to the scope of the rule is designed to help ensure that all investors in these funds experience the anticipated benefits of the proposed new disclosure framework.[898]

#### 5. Proposed Amendments to Fund Prospectus Disclosure Requirements

We are proposing amendments to funds' prospectus disclosure that are designed to help investors more readily understand a fund's fees and risks, and that use layered disclosure principles that tailor disclosures of these topics to different types of investors' informational

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896 *See supra* footnote 811 and accompanying text.

897 *See supra* footnote 810 and accompanying text.

898 *See supra* Section II.F.

needs. Specifically, we are proposing amendments to Form N-1A that would create a more concise, easier-to-understand presentation of fund fees for the summary prospectus or summary section of the statutory prospectus, while maintaining the existing fee table in the statutory prospectus for investors that would like more detail.[899] We are also proposing changes in some terminology that funds would use to describe fees in the prospectus.[900] In addition, we are proposing Form N-1A amendments that are designed to make it easier for investors to identify and understand the principal risks of a fund investment by requiring funds to briefly disclose principal risks in general order of importance and providing funds with additional guidance for determining whether a risk is a principal risk.[901]

We are also proposing to rescind rule 30e-1(d), which permits a fund to transmit a copy of its prospectus or SAI in place of its shareholder report, if it includes all of the information that would otherwise be required to be contained in the shareholder report.[902] We understand that funds very rarely rely on rule 30e-1(d) to transmit a prospectus or SAI in place of a shareholder report. Additionally, we believe that allowing funds to consolidate their prospectus, SAI, and shareholder report disclosures into a single document would result in shareholders receiving long, complex, and overlapping fund disclosures that could cause shareholder confusion and fatigue.[903]

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899 *See supra* Section II.H.1.

900 *See supra* Section II.H.1.f.

901 *See supra* Section II.H.2.

902 *See supra* Section II.H.3.

903 *See supra* text following footnote 647.

We estimate that approximately 50 funds are small entities that prepare prospectuses pursuant to the requirements of Form N-1A.[904] We estimate that compliance with the proposed Form N-1A amendments affecting funds' prospectus disclosure, in the aggregate, would entail initial costs of $9,072 for each fund, including small entities, and $2,016 per year for each subsequent year.[905]

### 6. Investment Company Advertising Rules

We are also proposing to amend the Commission's investment company advertising rules (for purposes of this release, Securities Act rules 482, 156, and 433 and Investment Company Act rule 34b-1) to promote transparent and balanced presentations of fees and expenses in investment company advertisements.[906] As investment companies increasingly compete and market themselves on the basis of costs, we are concerned that investment company advertisements may mislead investors by creating an inaccurate impression of the costs associated with an investment.[907] The proposed advertising rule amendments would generally apply to any investment company, including mutual funds, ETFs, registered closed-end funds, and BDCs.

Specifically, we are proposing to amend Securities Act rules 433 and 482 and Investment Company Act rule 34b-1 to promote transparent and balanced presentations of fees and expenses in investment company advertisements. We also are proposing to amend

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904 *See supra* text following footnote 862.

905 *See supra* footnotes 821 and 822 and accompanying text.

906 *See supra* Section II.I.

907 *See supra* text accompanying footnote 649.

Securities Act rule 156 to provide factors an investment company should consider to determine whether representations about the fees and expenses associated with an investment in the fund could be materially misleading.[908]

We estimate that 50 open-end funds (including 8 registered ETFs), 33 closed-end funds, and 16 BDCs are small entities that would be affected by our proposed amendments to investment company advertising rules. As discussed above, we estimate that compliance with these proposed amendments would cost $5,040 for each advertisement, including small entities, in the first year, and $1,680 per year for each subsequent year.[909]

### JJ. Duplicative, Overlapping, or Conflicting Federal Rules

*Filing, Posting, and Delivery-Upon-Request of Certain Information that Currently Appears in Funds' Shareholder Reports*

Funds currently prepare and transmit annual and semi-annual reports to investors and file those reports, along with other information, on Form N-CSR. Under our proposal, funds would transmit tailored annual and semi-annual reports to investors. Certain information currently contained in funds' shareholder reports would no longer be included in the reports that are transmitted to investors but would instead be included in funds' semi-annual filings on Form N-CSR.[910] Funds would also make that same information available on the website specified on the cover page or at the beginning of the fund's shareholder reports and deliver that information in paper or electronically upon request, free of charge.[911] We acknowledge

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908 *See supra* footnote 652 and accompanying text.

909 *See supra* footnotes 829 and 830 and accompanying text.

910 *See supra* Section II.B.1.

911 *See supra* Sections II.B.2 and 3.

that filing that information with the Commission, posting it online, and delivering it upon request could result in some investors receiving or being able to access the same information multiple times, which could be duplicative. However, each one of those different requirements would serve a unique purpose. We believe it is important for regulatory disclosures to be filed with the Commission for oversight and compliance purposes. The website posting requirement would provide investors with broad access to the additional information and conforms with evolving investor preferences regarding document delivery.[912] Finally, the delivery-upon-request requirements would allow investors to choose the format in which regulatory disclosures are provided, which could be especially important for investors who might not have reliable access to the internet or who might prefer paper disclosures.

We also considered whether the information regarding remuneration paid to funds' directors and officers, which we propose to remove from funds' shareholder reports and instead require funds to file on Form N-CSR and make available online, would duplicate the detailed disclosures regarding compensation paid to each of the fund's directors, members of any advisory board, and certain officers and affiliates that are required to appear in a fund's SAI. We do not believe that the proposed new Form N-CSR and website availability requirement for remuneration-related information inappropriately duplicates the current SAI requirement. The different disclosure requirements vary in terms of scope and presentation requirements, and thus serve different informational needs.[913]

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912 *See supra* Section I.B.3.

913 For example, the required SAI information is disaggregated for each director, whereas the information that would appear on Form N-CSR and on funds' websites would be aggregated. *See supra* Section II.D.1.e.

*Prospectus Delivery Requirements*

Under proposed new rule 498B, funds would have the option of satisfying prospectus delivery requirements with respect to existing shareholders by making certain information, including summary and statutory prospectuses, publicly accessible on the fund's website; delivering this information in paper or electronically upon request, free of charge; and complying with certain other conditions.[914] This proposed rule is modeled in part on rule 498 and contains certain similar provisions, including website posting and delivery-upon-request requirements with regard to largely the same documents.[915] However, compliance obligations under rules 498B and 498 apply under different circumstances (satisfying prospectus delivery requirements with respect to existing shareholders, and satisfying prospectus delivery requirements by using a summary prospectus, respectively). Furthermore, proposed rule 498B is designed to avoid duplication and instead create efficiencies for funds that currently rely on rule 498, because we believe these funds would already be familiar with the website posting and delivery-upon-request conditions and would have compliance processes in place related to these conditions.

*Shareholder Report Transmission Requirements*

We are proposing to revise rule 30e-3 to exclude investment companies registered on Form N-1A from the scope of the rule. Rule 30e-3 currently allows a fund to satisfy its obligation to transmit the shareholder reports that rule 30e-1 and rule 30e-2 require if the fund complies with certain conditions. These conditions generally relate to: (1) making the fund's

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914 *See supra* Section II.F.

915 *See supra* Sections II.F.3.a and II.F.4.

shareholder report and certain other materials available on a website; (2) providing notice to investors of the website availability of the shareholder report; and (3) delivering paper copies of the materials that appear online, upon a shareholder's request.[916] If we do not revise rule 30e-3 to exclude funds from the scope of the rule, a fund (or intermediary) could rely on both rule 30e-3 and proposed rule 498B. In that case, existing shareholders would not receive the shareholder report pursuant to proposed rule 30e-3 and furthermore would not be sent or given prospectus updates pursuant to proposed rule 498B. This would contradict our goal of ensuring consistent disclosure requirements with respect to existing fund shareholders, and also could prevent these investors from experiencing the anticipated benefits of the new tailored disclosure framework. Thus, we are proposing to amend rule 30e-3 to avoid overlapping and conflicting Federal rules.

We are also proposing to rescind rule 30e-1(d), which permits a fund to transmit a copy of its prospectus or SAI in place of its shareholder report, if it includes all of the information that would otherwise be required to be contained in the shareholder report.[917] We believe that allowing funds to consolidate their prospectus, SAI, and shareholder report disclosures into a single document would result in shareholders receiving long, complex, and overlapping fund disclosures which could cause shareholder confusion and fatigue and would conflict with the goals of this rulemaking.

*Fee Table*

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916 *See supra* footnote 532.

917 *See infra* Section II.H.3.

Proposed amendments to Form N-1A are designed to create a more concise, easier-to-understand presentation of fund fees for the summary prospectus or summary section of the statutory prospectus, while maintaining the existing fee table in the statutory prospectus for investors that would like more detail.[918] Although this layered disclosure approach would result in some duplicative information (*i.e.,* certain transaction fees, ongoing annual fees, and an expense example would appear in both the summary prospectus as well as in the statutory prospectus), we believe that both the nature and structure of each of the proposed fee-related disclosures are sufficiently different to justify overlapping information requirements. The goal of the simplified fee summary is to streamline presentation of fees, which would allow investors to more easily and rapidly understand the total costs of investing in a fund. The current, full fee table presentation would be moved to the statutory prospectus, where it could be used by financial professionals or other investors who seek additional details about fund fees to supplement the fee summary.

### KK. Significant Alternatives

The RFA directs the Commission to consider significant alternatives that would accomplish its stated objective, while minimizing any significant economic impact on small entities. The Commission considered the following alternatives for small entities in relation our proposed amendments: (1) establishing different reporting, recordkeeping, and other compliance requirements or frequency, to account for resources available to small entities; (2) exempting funds that are small entities from the proposed reporting, recordkeeping, and other

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[918] *See infra* Section II.H.1.

compliance requirements, to account for resources available to small entities; (3) clarifying, consolidating, or simplifying the compliance requirements under the proposal for small entities; and (4) using performance rather than design standards.

As discussed above, our proposal contemplates amendments to shareholder report content and disclosure requirements, proposed new rule 498B to address existing shareholders' receipt of annual prospectus updates, amendments to the scope of rule 30e-3 to exclude funds registered on Form N-1A, amendments to fund prospectus fee and risk disclosures, and rescission of rule 30e-1(d) (which currently permits a fund to transmit a copy of its prospectus or SAI in place of its shareholder report under certain conditions). Collectively, these amendments would tailor the disclosures that funds provide by using layered disclosure principles to create a new disclosure framework designed to meet the informational needs of different investors (*i.e.,* initial investors versus existing shareholders, and retail investors versus those who desire more information). The proposed amendments are designed to focus on key information different investors need to make informed investment decisions and, for existing shareholders, to assess and monitor their fund investments. In addition, our proposal would amend investment company advertising rules to promote transparent and balanced presentations of fees and expenses in investment company advertisements.

We do not believe it would be appropriate to establish different reporting, recordkeeping, and other compliance requirements or frequency, to account for resources available to small entities. Small entities currently follow the same requirements that large entities do when preparing, transmitting, and filing shareholder reports; preparing and sending or giving prospectuses to investors; and preparing investment company advertisements and

supplemental sales literature. If the proposal included different requirements for small funds, it could raise investor protection concerns for investors in small funds to the extent that investors in small funds would not receive the same disclosures as investors in larger funds.

For example, to the extent that small funds may have fewer resources to invest in investor education or marketing materials, investors in small funds may have fewer opportunities outside of regulatory disclosures to obtain key information needed to make informed investment decisions and assess and monitor their fund investments. For this reason, it is important that the regulatory disclosures that small funds provide to investors are consistent in terms of content and frequency with the disclosures that larger funds provide to investors, so that all investors have the tools they need to meet their informational needs. More generally, our proposed disclosure requirements are tailored to meet the informational needs of different groups of investors, and to implement a layered disclosure framework that would benefit all investors. Permitting different disclosure requirements for small funds would result in small fund investors not experiencing the anticipated benefits of the new tailored disclosure framework. Furthermore, uniform prospectus fee and risk disclosure requirements would allow all investors to compare funds reporting the same information on the same frequency, and help all investors to make informed investment decisions based upon those comparisons.

Similarly, we do not believe it would be appropriate to exempt small funds from the proposed amendments. As discussed above, our contemplated disclosure framework would be disrupted if investors in smaller funds received different disclosures than investors in larger funds. We believe that investors in all funds should benefit from the Commission's proposed disclosure amendments, not just investors in large funds.

We do not believe that clarifying, consolidating, or simplifying the compliance requirements under the proposal for small funds would permit us to achieve our stated objectives. Many of the amendments we are proposing are based on existing rules or disclosure frameworks.[919] We anticipate that building on existing regulatory frameworks and concepts should help to ease certain compliance burdens for funds, including small funds. For example, the website availability and delivery-upon-request provisions in proposed rules 498B and 30e-1 are modeled on parallel provisions in rule 498, which we estimate that more than 90% of all funds, including small funds, currently rely on to satisfy prospectus delivery obligations. We believe that this would create efficiencies for small funds relying on proposed rules 498B or 30e-1, because these funds would likely be familiar with these conditions and would already have compliance processes in place pursuant to rule 498.

Finally, we do not believe it would be appropriate to use performance rather than design standards. As discussed above, we believe the regulatory disclosures that small funds provide to investors should be consistent with the disclosures provided to investors in larger entities. Our proposed disclosure requirements are tailored to meet the informational needs of different investors, and to implement a layered disclosure framework. We believe all fund investors should experience the anticipated benefits of the new tailored disclosure framework. Finally, we believe that prospectus fee and risk disclosure requirements should be uniform

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[919] For example, many of our proposed amendments to fund prospectuses, shareholder reports, and Form N-CSR largely reframe existing disclosure requirements to tailor disclosures to the informational needs of different investors, as opposed to requiring new disclosures for which funds would need to generate and develop reporting and compliance procedures for the first time.

and standardized in order to allow investors to compare funds reporting the same information on the same frequency, and to help all investors to make informed initial investment decisions based upon those comparisons.

### LL. General Request for Comment

The Commission requests comments regarding this IRFA. We request comments on the number of small entities that may be affected by our proposed rules and guidelines, and whether the proposed rules and guidelines would have any effects not considered in this analysis. We request that commenters describe the nature of any effects on small entities subject to the rules, and provide empirical data to support the nature and extent of such effects. We also request comment on the proposed compliance burdens and the effect these burdens would have on smaller entities.

## VI. CONSIDERATION OF IMPACT ON THE ECONOMY

For purposes of the Small Business Regulatory Enforcement Fairness Act of 1996 ("SBREFA"),[920] the Commission must advise OMB whether a proposed regulation constitutes a "major" rule. Under SBREFA, a rule is considered "major" where, if adopted, it results in or is likely to result in:

- An annual effect on the economy of $100 million or more;
- A major increase in costs or prices for consumers or individual industries; or
- Significant adverse effects on competition, investment, or innovation.

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920 Public Law 104-121, Title II, 110 Stat. 857 (1996) (codified in various sections of 5 U.S.C., 15 U.S.C., and as a note to 5 U.S.C. 601).

We request comment on whether our proposal would be a "major rule" for purposes of SBREFA. We solicit comment and empirical data on:

- The potential effect on the U.S. economy on an annual basis;
- Any potential increase in costs or prices for consumers or individual industries; and
- Any potential effect on competition, investment, or innovation.

Commenters are requested to provide empirical data and other factual support for their views to the extent possible.

## VII. STATUTORY AUTHORITY

The Commission is proposing the rules and forms contained in this document under the authority set forth in the Securities Act, particularly, section 19 thereof [15 U.S.C. *77a et seq*.], the Exchange Act, particularly, sections 13, 23, and 35A thereof [15 U.S.C. 78a *et seq*.], the Investment Company Act, particularly, sections 8, 24, 30, and 38 thereof [15 U.S.C. 80a *et seq*.], and 44 U.S.C. 3506, 3507.

**List of Subjects**

**17 CFR Part 200**

Administrative practice and procedure, Organization and functions (Government agencies).

**17 CFR Parts 230 and 239**

Reporting and recordkeeping requirements, Securities.

**17 CFR Part 240**

Brokers, Reporting and recordkeeping requirements, Securities.

**17 CFR Parts 270 and 274**

Investment companies, Reporting and recordkeeping requirements, Securities.

## TEXT OF PROPOSED RULES AND FORM AMENDMENTS

For reasons set forth in the preamble, title 17, chapter II of the Code of Federal Regulations is proposed to be amended as follows:

## PART 200 - ORGANIZATION; CONDUCT AND ETHICS; AND INFORMATION AND REQUESTS

### Subpart N - Commission Information Collection Requirements Under the Paperwork Reduction Act: OMB Control Numbers

1. The authority citation for subpart N of part 200 continues to read as follows:

**Authority:** 44 U.S.C. 3506; 44 U.S.C. 3507.

2. Amend §200.800 in paragraph (b) by adding an entry in numerical order by section number for "Rule 498B" to read as follows:

**§200.800 OMB control numbers assigned pursuant to the Paperwork Reduction Act.**

* * * * *

(b) * * *

| Information collection requirement | 17 CFR part or section where identified and described | Current OMB control no. |
|---|---|---|
| * * * * * * * | | |
| Rule 498B | 230.498B | [OMB control number TBD] |
| * * * * * * * | | |

## PART 230 – GENERAL RULES AND REGULATIONS, SECURITIES ACT OF 1933

3. The authority citation for part 230 continues to read in part as follows:

**Authority:** 15 U.S.C. 77b, 77b note, 77c, 77d, 77f, 77g, 77h, 77j, 77r, 77s, 77z-3, 77sss, 78c, 78d, 78j, 78l, 78m, 78n, 78*o*, 78*o*-7 note, 78t, 78w, 78ll(d), 78mm, 80a-8, 80a-24, 80a-28, 80a-29, 80a-30, and 80a-37, and Pub. L. 112-106, sec. 201(a), sec. 401, 126 Stat. 313 (2012), unless otherwise noted.

* * * * *

Sections 230.400 to 230.499 issued under secs. 6, 8, 10, 19, 48 Stat. 78, 79, 81, and 85, as amended [15 U.S.C. 77f, 77h, 77j, 77s].

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4. Amend §230.156 by adding paragraph (b)(4) to read as follows:

**§230.156 Investment company sales literature.**

* * * * *

(b) * * *

(4) Representations about the fees or expenses associated with an investment in the fund could be misleading because of statements or omissions made involving a material fact, including situations where portrayals of the fees and expenses associated with an investment in the fund omit explanations, qualifications, limitations, or other statements necessary or appropriate to make the portrayals not misleading.

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5. Amend §230.433 by adding paragraph (c)(3) to read as follows:

**§230.433 Conditions to permissible post-filing free writing prospectuses.**

* * * * *

(c) * * *

(3) A free writing prospectus with respect to securities of a registered closed-end investment company or a business development company that includes fee or expense information must comply with paragraphs (i) and (j) of §230.482 (Rule 482), as applicable.

* * * * *

6. Amend §230.482 by revising paragraph (b)(3)(i) and adding paragraphs (i) and (j) to read as follows:

**§230.482 Advertising by an investment company as satisfying requirements of section 10.**

* * * * *

(b) * * *

(3) * * *

(i) A legend disclosing that the performance data quoted represents past performance; that past performance is not a good predictor of future results; that the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost; and that current performance may be lower or higher than the performance data quoted. The legend should also identify a toll-free telephone number or a website where an investor may obtain performance data current to the most recent month-end unless the advertisement includes total return quotations current to the most recent month ended seven business days prior to the date of use. An advertisement for a money market fund that is a government money market fund, as defined in §270.2a-7(a)(16) of this chapter, or a retail money market fund, as defined in §270.2a-7(a)(25) of this chapter may omit the disclosure about principal value fluctuation; and

* * * * *

(i) *Advertisements including fee or expense figures*. An advertisement that provides fee or expense figures for an investment company must include the following:

(1) The maximum amount of any sales load, or any other nonrecurring fee, and the total annual expenses without any fee waiver or expense reimbursement arrangement, based on the methods of computation prescribed by the company's registration statement form under the 1940 Act or under the Act for a prospectus and presented at least as prominently as any other fee or expense figure included in the advertisement; and

(2) The expected termination date of a fee waiver or expense reimbursement arrangement, if the advertisement provides total annual expenses net of fee waiver or expense reimbursement arrangement amounts.

(j) *Timeliness of fee and expense information*. Fee and expense information contained in an advertisement must be as of the date of the investment company's most recent prospectus or, if the company no longer has an effective registration statement under the Act, as of the date of its most recent annual shareholder report, except that a company may provide more current information if available.

**§230.498 [Amended]**

7. Amend §230.498 by removing paragraph (b)(1)(vii).

8. Add §230.498B to read as follows:

**§ 230.498B Delivery of prospectuses to existing shareholders of open-end management investment companies.**

(a) *Definitions.* For purposes of this section:

*Account* means any contractual or other business relationship between a person and a Fund to effect transactions in securities issued by the fund, including the purchase or sale of securities.

*Existing shareholder* means a shareholder to whom a Summary Prospectus or Statutory Prospectus has been previously sent or given in order to satisfy any obligation under section 5(b)(2) of the Act [15 U.S.C.77e(b)(2)] to have a Statutory Prospectus precede or accompany the carrying or delivery of Fund shares and that has either continuously held Fund shares or, if the Fund is a money market fund as defined in §270.2a-7 of this chapter has continuously maintained or been a beneficial owner of a Fund Account, since that Summary Prospectus or Statutory Prospectus has been sent or given. This definition excludes investors that hold the fund through a separate account funding a variable annuity contract offered on Form N-4 (§§239.17b and 274.11c of this chapter) or a variable life insurance contract offered on Form N-6 (§§239.17c and 274.11d of this chapter).

*Fund* means an open-end management investment company, or any Series of such a company, that has, or is included in, an effective registration statement on Form N-1A (§§ 239.15A and 274.11A of this chapter) and that has a current prospectus that satisfies the requirements of section 10(a) of the Act [15 U.S.C. 77j(a)].

*Series* means shares offered by a Fund that represent undivided interests in a portfolio of investments and that are preferred over all other series of shares for assets specifically allocated to that series in accordance with §270.18f-2(a) of this chapter.

*Statement of Additional Information* means the statement of additional information required by Part B of Form N-1A.

*Statutory Prospectus* means a prospectus that satisfies the requirements of section 10(a) of the Act.

*Summary Prospectus* means the summary prospectus described in §230.498(b).

(b) *Transfer of the security.* With respect to Existing Shareholders, any obligation under section 5(b)(2) of the Act [15 U.S.C. 77e(b)(2)] to have a Statutory Prospectus precede or accompany the carrying or delivery of a Fund security in an offering registered on Form N-1A is satisfied if the conditions in paragraph (c) of this section are satisfied.

(c) *Conditions*--(1) *Website availability of certain Fund documents.* (i) The Fund's current Summary Prospectus, Statutory Prospectus, Statement of Additional Information, and most recent annual and semi-annual reports to shareholders under §270.30e-1 of this chapter must be publicly accessible, free of charge, at the website address specified on the cover page or at the beginning of its annual and semi-annual reports to shareholders.

(ii) The materials that are accessible in accordance with paragraph (c)(2)(i) of this section must be presented on the website in a format, or formats, that:

(A) Are human-readable and capable of being printed on paper in human-readable format;

(B) Permit persons accessing the Statutory Prospectus or Statement of Additional Information to move directly back and forth between each section heading in a table of contents of such document and the section of the document referenced in that section heading; provided that, in the case of the Statutory Prospectus, the table of contents is either required by §230.481(c) or contains the same section headings as the table of contents required by §230.481(c); and

(C) Permit persons accessing the Summary Prospectus to move directly back and forth between:

(*1*) Each section of the Summary Prospectus and any section of the Statutory Prospectus and Statement of Additional Information that provides additional detail concerning that section of the Summary Prospectus; or

(*2*) Links located at both the beginning and end of the Summary Prospectus, or that remain continuously visible to persons accessing the Summary Prospectus, and tables of contents of both the Statutory Prospectus and the Statement of Additional Information that meet the requirements of paragraph (c)(2)(ii)(B) of this section.

(iii) Persons accessing the materials specified in paragraph (c)(1)(i) of this section must be able to permanently retain, free of charge, an electronic version of such materials in a format, or formats, that meet each of the requirements of paragraphs (c)(2)(ii)(A) and (B) of this section.

(iv) The conditions in paragraphs (c)(2)(i) through (iii) of this section shall be deemed to be met, notwithstanding the fact that the materials specified in paragraph (c)(2)(i) of this section are not available for a time in the manner required by paragraphs (c)(2)(i) through (iii) of this section, provided that:

(A) The Fund has reasonable procedures in place to ensure that the specified materials are available in the manner required by paragraphs (c)(2)(i) through (c)(2)(iii) of this section; and

(B) The Fund takes prompt action to ensure that the specified documents become available in the manner required by paragraphs (c)(2)(i) through (c)(2)(iii) of this section, as soon as practicable following the earlier of the time at which it knows or reasonably should

have known that the documents are not available in the manner required by paragraphs (c)(2)(i) through (iii) of this section.

(2) *Material changes to the Fund.* If any material change has been made to the Fund with respect to any of the topics described in Item 27A(g) of Form N-1A, and the Fund files a post-effective amendment to its prospectus pursuant to §230.485 or files a prospectus supplement with the Commission pursuant to §230.497 regarding any such material change, the Fund (or a financial intermediary through which shares of the Fund may be purchased or sold) must provide Existing Shareholders notice of that change. Such notice must be provided within three business days of either the effective date of the Fund's post-effective amendment filing or the filing date of the prospectus supplement filing, by first-class mail or other means designed to ensure equally prompt receipt, unless that change is disclosed in the Fund's most recent annual report to shareholders. Such notice will be considered to be provided to investors who share an address if the requirements of section §230.154 are met with regard to delivery of that notice.

(d) *Other requirements*. If paragraph (b) of this section is relied on with respect to a Fund:

(1) *Delivery upon request of certain Fund documents*. (i) The Fund (or a financial intermediary through which shares of the Fund may be purchased or sold) must send, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, a paper copy of any of the documents listed in paragraph (c)(2) of this section to any person requesting such a copy within three business days after receiving a request for a paper copy; and

(ii) The Fund (or a financial intermediary through which shares of the Fund may be purchased or sold) must send, at no cost to the requestor, and by email, an electronic copy of any of the documents listed in paragraph (c)(2) of this section to any person requesting such a copy within three business days after receiving a request for an electronic copy. The requirement to send an electronic copy of a document by email may be satisfied by sending a direct link to the online document; provided that a current version of the document is directly accessible through the link from the time that the email is sent through the date that is six months after the date that the email is sent and the email explains both how long the link will remain useable and that, if the recipient desires to retain a copy of the document, he or she should access and save the document.

(2) *Convenient for reading and printing.* (i) The materials that are accessible in accordance with paragraph (c)(1) of this section must be presented on the website in a format, or formats, that are convenient for both reading online and printing on paper; and

(ii) Persons accessing the materials that are accessible in accordance with paragraph (c)(1) of this section must be able to permanently retain, free of charge, an electronic version of such materials in a format, or formats, that are convenient for both reading online and printing on paper.

(3) *Compliance with this paragraph (d) not a condition to reliance on paragraph (b) of this section.* Compliance with this paragraph (d) is not a condition to the ability to rely on paragraph (b) of this section with respect to a Fund, and failure to comply with this paragraph (d) does not negate the ability to rely on paragraph (b).

**PART 239 — FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933**

9. The general authority citation for part 239 is revised to read as follows:

Authority: 15 U.S.C. 77c, 77f, 77g, 77h, 77j, 77s, 77z-2, 77z-3, 77sss, 78c, 78*l,* 78m, 78n, 78*o*(d), 78*o*-7 note, 78u-5, 78w(a), 78*ll,* 78mm, 80a-2(a), 80a-3, 80a-8, 80a-9, 80a-10, 80a-13, 80a-24, 80a-26, 80a-29, 80a-30, 80a-37, and sec. 71003 and sec. 84001, Pub. L. 114-94, 129 Stat. 1321, unless otherwise noted.

* * * * *

10. Amend Form N-14 (referenced in §239.23) by removing in Item 3(a) "Item 3 of Form N-1A" and adding in its place "Item 8A of Form N-1A".

**PART 240 – GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934**

11. The general authority citation for part 240 continues to read as follows:

Authority: 15 U.S.C. 77c, 77d, 77g, 77j, 77s, 77z-2, 77z-3, 77eee, 77ggg, 77nnn, 77sss, 77ttt, 78c, 78c-3, 78c-5, 78d, 78e, 78f, 78g, 78i, 78j, 78j-1, 78k, 78k-1, 78*l,* 78m, 78n, 78n-1, 78*o,* 78*o*-4, 78*o*-10, 78p, 78q, 78q-1, 78s, 78u-5, 78w, 78x, 78*ll,* 78mm, 80a-20, 80a-23, 80a-29, 80a-37, 80b-3, 80b-4, 80b-11, and 7201 *et seq*., and 8302; 7 U.S.C. 2(c)(2)(E); 12 U.S.C. 5221(e)(3); 18 U.S.C. 1350; Pub. L. 111-203, 939A, 124 Stat. 1376 (2010); and Pub. L. 112-106, secs. 503 and 602, 126 Stat. 326 (2012), unless otherwise noted.

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**§240.14a-101 [Amended]**

12. Amend §240.14a-101 by removing the phrase "Item 3 of Form N-1A" and adding in its place "Item 8A of Form N-1A" in paragraph (a)(3)(iv) and Instruction 4 of Item 22.

**PART 270 — RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940**

13. The authority for part 270 continues to read in part as follows:

Authority: 15 U.S.C. 80a-1 *et seq.,* 80a-34(d), 80a-37, 80a-39, and Pub. L. 111-203, sec. 939A, 124 Stat. 1376 (2010), unless otherwise noted.

* * * * *

Section 270.30e-1 is also issued under 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78l, 78m, 78n, 78o(d), 78w(a), 80a-8, 80a-29, and 80a-37.

* * * * *

14. Amend §270.30e-1 by:

a. Removing paragraph (d);

b. Redesignating paragraphs (b) and (c) as paragraphs (c) and (d);

c. Adding a new paragraph (b); and

d. Revising newly redesignated paragraphs (c) and (d) and paragraphs (f)(2)(ii)(F) and (f)(4).

The addition and revisions read as follows:

**§270.30e-1 Reports to stockholders of management companies.**

* * * * *

(b)(1) To satisfy its obligations under section 30(e) of the 1940 Act, an open-end management investment company registered on Form N-1A (§§239.15A and 274.11A of this chapter) also must:

(i) Make certain materials available on a website, as described under paragraph (b)(2) of this section; and

(ii) Deliver certain materials upon request, as described under paragraph (b)(3) of this

section.

(2) The following website availability requirements are applicable to an open-end management investment company registered on Form N-1A (§§239.15A and 274.11A of this chapter).

(i) The company must make the disclosures required by Items 7 through 11 of Form N-CSR (§§249.331 and 274.128 of this chapter) publicly accessible, free of charge, at the website address specified at the beginning of the report to stockholders under paragraph (a) of this section, no later than 70 days after the end of the fiscal half-year or fiscal year of the company until 70 days after the end of the next fiscal half-year or fiscal year of the company, respectively. The company may satisfy the requirement in this paragraph (b)(2)(i) by making its most recent report on Form N-CSR publicly accessible, free of charge, at the specified website address for the time period that this paragraph (b)(2)(i) specifies.

(ii) Unless the company is a money market fund under §270.2a-7, the company must make the company's complete portfolio holdings, if any, as of the close of the company's most recent first and third fiscal quarters, after the date on which the company's registration statement became effective, presented in accordance with the schedules set forth in §§210.12-12 through 210.12-14 of this chapter (Regulation S-X), which need not be audited. The complete portfolio holdings required by this paragraph (b)(2)(ii) must be made publicly accessible, free of charge, at the website address specified at the beginning of the report to stockholders under paragraph (a) of this section, not later than 70 days after the close of the of the first and third fiscal quarters until 70 days after the end of the next first and third fiscal quarters of the company, respectively.

(iii) The website address relied upon for compliance with this section may not be the

address of the Commission's electronic filing system.

(iv) The materials that are accessible in accordance with paragraph (b)(2)(i) or (ii) of this section must be presented on the website in a format, or formats, that are convenient for both reading online and printing on paper.

(v) Persons accessing the materials specified in paragraph (b)(2)(i) or (ii) of this section must be able to permanently retain, free of charge, an electronic version of such materials in a format, or formats, that meet the requirements of paragraph (b)(2)(iv) of this section.

(vi) The requirements set forth in paragraphs (b)(2)(i) through (v) of this section will be deemed to be met, notwithstanding the fact that the materials specified in paragraphs (b)(2)(i) and (ii) of this section are not available for a time in the manner required by paragraphs (b)(2)(i) through (v) of this section, provided that:

(A) The company has reasonable procedures in place to ensure that the specified materials are available in the manner required by paragraphs (b)(2)(i) through (v) of this section; and

(B) The company takes prompt action to ensure that the specified materials become available in the manner required by paragraphs (b)(2)(i) through (v) of this section, as soon as practicable following the earlier of the time at which it knows or reasonably should have known that the materials are not available in the manner required by paragraphs (b)(2)(i) through (v) of this section.

(vii) The materials specified in paragraph (b)(2)(i) or (ii) of this section may be separately available for each series of a fund or grouped by the types of materials and/or by series, so long as the grouped information:

(A) Is presented in a format designed to communicate the information effectively;

(B) Clearly distinguishes the different types of materials and/or each series (as applicable); and

(C) Provides a means of easily locating the relevant information (including, for example, a table of contents that includes hyperlinks to the specific materials and series).

(3) The following requirements to deliver certain materials upon request are applicable to an open-end management investment company registered on Form N-1A (§§239.15A and 274.11A of this chapter).

(i) The company (or a financial intermediary through which shares of the company may be purchased or sold) must send, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, a paper copy of any of the materials specified in paragraph (b)(2)(i) or (ii) of this section, to any person requesting such a copy within three business days after receiving a request for a paper copy.

(ii) The company (or a financial intermediary through which shares of the company may be purchased or sold) must send, at no cost to the requestor, and by email or other reasonably prompt means, an electronic copy of any of the materials specified in paragraph (b)(2)(i) or (ii) of this section, to any person requesting such a copy within three business days after receiving a request for an electronic copy. The requirement to send an electronic copy of the requested materials may be satisfied by sending a direct link to the online location of the materials; provided that a current version of the materials is directly accessible through the link from the time that the email is sent through the date that is six months after the date that the email is sent and the email explains both how long the link will remain useable and that, if the recipient desires to retain a copy of the materials, he or she should access and save the

materials.

(c) For registered management companies other than open-end management investment companies registered on Form N-1A, if any matter was submitted during the period covered by the shareholder report to a vote of shareholders, through the solicitation of proxies or otherwise, furnish the following information:

(1) The date of the meeting and whether it was an annual or special meeting.

(2) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.

(3) A brief description of each matter voted upon at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to each such matter, including a separate tabulation with respect to each matter or nominee for office.

*Instruction 1 to paragraph (c)*. The solicitation of any authorization or consent (other than a proxy to vote at a shareholders' meeting) with respect to any matter shall be deemed a submission of such matter to a vote of shareholders within the meaning of this paragraph (c).

(d) Each report shall be transmitted within 60 days after the close of the period for which such report is being made.

* * * * *

(f) * * *

(2) * * *

(ii) * * *

(F) Contain the following prominent statement, or similar clear and understandable statement, in bold-face type: "Important Notice Regarding Delivery of Shareholder Materials". This statement also must appear on the envelope in which the notice is delivered. Alternatively, if the notice is delivered separately from other communications to investors, this statement may appear either on the notice or on the envelope in which the notice is delivered;

* * * * *

(4) For purposes of this section, *address* means a street address, a post office box number, an electronic mail address, a facsimile telephone number, or other similar destination to which paper or electronic materials are transmitted, unless otherwise provided in this section. If the company has reason to believe that the address is a street address of a multi-unit building, the address must include the unit number.

15. Amend §270.30e-3 by revising paragraph (h)(2) to read as follows:

**§270.30e-3 Internet availability of reports to shareholders.**

* * * * *

(h) * * *

(2) *Fund* means a registered management company registered on Form N-2 (§§239.14 and 274.11a of this chapter) or Form N-3 (§§239.17a and 274.11b of this chapter) and any separate series of the management company.

* * * * *

16. Amend §270.31a-2 by:

a. Removing the word "and" at the end of paragraph (a)(5);

b. In paragraph (a)(6), removing the period and adding "; and" in its place; and

c. Adding paragraph (a)(7).

The addition reads as follows:

**§270.31a-2 Records to be preserved by registered investment companies, certain majority-owned subsidiaries thereof, and other persons having transactions with registered investment companies.**

(a) * * *

(7) Preserve for a period not less than six years, the first two years in an easily accessible place, any shareholder report required by §270.30e-1 (including any version posted on a website or otherwise provided electronically) that is not filed with the Commission in the exact form in which it was used.

* * * * *

17. Amend §270.34b-1 by revising the introductory text and paragraph (b)(3) and adding paragraph (c) to read as follows:

**§270.34b-1 Sales literature deemed to be misleading.**

Any advertisement, pamphlet, circular, form letter, or other sales literature addressed to or intended for distribution to prospective investors that is required to be filed with the Commission by section 24(b) of the Act [15 U.S.C. 80a-24(b)] (for purposes of paragraph (a) and (b) of this section, "sales literature") will have omitted to state a fact necessary in order to make the statements made therein not materially misleading unless the sales literature includes the information specified in paragraphs (a) and (b) of this section. Any registered investment company or business development company advertisement, pamphlet, circular, form letter, or other sales literature addressed to or intended for distribution to prospective investors in connection with a public offering (for purposes of paragraph (c) of this section,

"sales literature") will have omitted to state a fact necessary in order to make the statements therein not materially misleading unless the sales literature includes the information specified in paragraph (c) of this section.

NOTE 1 TO §270.34b-1 INTRODUCTORY TEXT: The fact that the sales literature includes the information specified in paragraphs (a) and (b) of this section does not relieve the investment company, underwriter, or dealer of any obligations with respect to the sales literature under the antifraud provisions of the Federal securities laws. For guidance about factors to be weighed in determining whether statements, representations, illustrations, and descriptions contained in investment company sales literature are misleading, *see* §230.156 of this chapter.

* * * * *

(b) * * *

(3) The requirements specified in paragraph (b)(1) of this section do not apply to any quarterly, semi-annual, or annual report to shareholders under Section 30 of the Act [15 U.S.C. 80a-29] containing performance data for a period commencing no earlier than the first day of the period covered by the report; nor do the requirements of paragraphs (d)(3)(ii), (d)(4)(ii), and (g) of §230.482 of this chapter apply to any such periodic report containing any other performance data.

(c)(1) Except as provided in paragraph (c)(2) of this section:

(i) In any sales literature that contains fee and expense figures for a registered investment company or business development company, include the disclosure required by paragraph (i) of §230.482 of this chapter.

(ii) Any fee and expense information included in sales literature must meet the timeliness requirements of paragraph (j) of §230.482 of this chapter.

(2) The requirements specified in paragraph (c)(1) of this section do not apply to any quarterly, semi-annual, or annual report to shareholders under Section 30 of the Act [15 U.S.C. 80a-29] or to other reports pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 79m or 78o(d)) containing fee and expense information; nor do the requirements of paragraphs (i) and (j) of §230.482 of this chapter or paragraph (c)(3) of §230.433 of this chapter apply to any such report containing fee and expense information.

**PART 274 – FORMS PRESCRIBED UNDER THE INVESTMENT COMPANY ACT OF 1940**

18. The authority for part 274 continues to read in part as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78c(b), 78*l,* 78m, 78n, 78*o*(d), 80a-8, 80a-24, 80a-26, 80a-29, and Pub. L. 111-203, sec. 939A, 124 Stat. 1376 (2010), unless otherwise noted.

* * * * *

19. Revise Form N-1A (referenced in §§239.15A and 274.11A) to read as follows:

**Note: The text of Form N-1A will not appear in the Code of Federal Regulations.**

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM N-1A**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. _____[ ]

Post-Effective Amendment No. _____[ ]

**and/or**

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. _____[ ]

_____

Registrant Exact Name as Specified in Charter

_____

Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

_____

Registrant's Telephone Number, including Area Code

_____

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

_____

Approximate Date of Proposed Public Offering

**It is proposed that this filing will become effective (check appropriate box)**

[ ] immediately upon filing pursuant to paragraph (b)
[ ] on (date) pursuant to paragraph (b)
[ ] 60 days after filing pursuant to paragraph (a)
[ ] on (date) pursuant to paragraph (a)
[ ] 75 days after filing pursuant to paragraph (a)(2) on (date)
[ ] pursuant to paragraph (a)(2) of rule 485

**If appropriate, check the following box:**

[ ] This post-effective amendment designates a new effective date for a previously filed post-effective amendment.

Omit from the facing sheet reference to the other Act if the Registration Statement or amendment is filed under only one of the Acts. Include the "Approximate Date of Proposed Public Offering" and "Title of Securities Being Registered" only where securities are being registered under the Securities Act of 1933.

Form N-1A is to be used by open-end management investment companies, except insurance company separate accounts and small business investment companies licensed under the United States Small Business Administration, to register under the Investment Company Act of 1940 and to offer their shares under the Securities Act of 1933. The Commission has designed Form N-1A to provide investors with information that will assist them in making a decision about investing in an investment company eligible to use the Form. The Commission also may use the information provided on Form N-1A in its regulatory, disclosure review, inspection, and policy making roles.

A Registrant is required to disclose the information specified by Form N-1A, and the Commission will make this information public. A Registrant is not required to respond to the collection of information contained in Form N-1A unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. 3507.

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## GENERAL INSTRUCTIONS

### A. Definitions

References to sections and rules in this Form N-1A are to the Investment Company Act of 1940 [15 U.S.C. 80a-1 et seq.] (the "Investment Company Act"), unless otherwise indicated. Terms used in this Form N-1A have the same meaning as in the Investment Company Act or the related rules, unless otherwise indicated. As used in this Form N-1A, the terms set out below have the following meanings:

"Class" means a class of shares issued by a Multiple Class Fund that represents interests in the same portfolio of securities under rule 18f-3 [17 CFR 270.18f-3] or under an order exempting the Multiple Class Fund from sections 18(f), 18(g), and 18(i) [15 U.S.C. 80a-18(f), 18(g), and 18(i)].

"Exchange-Traded Fund" means a Fund or Class, the shares of which are listed and traded on a national securities exchange, and that has formed and operates under an exemptive

order granted by the Commission or in reliance on rule 6c-11 [17 CFR 270.6c-11] under the Investment Company Act.

"Fund" means the Registrant or a separate Series of the Registrant. When an item of Form N-1A specifically applies to a Registrant or a Series, those terms will be used.

"Market Price" has the same meaning as in rule 6c-11 [17 CFR 270.6c-11] under the Investment Company Act.

"Master-Feeder Fund" means a two-tiered arrangement in which one or more Funds (each a "Feeder Fund") holds shares of a single Fund (the "Master Fund") in accordance with section 12(d)(1)(E) [15 U.S.C. 80a- 12(d)(1)(E)].

"Money Market Fund" means a registered open-end management investment company, or series thereof, that is regulated as a money market fund pursuant to rule 2a-7 [17 CFR 270.2a-7] under the Investment Company Act of 1940.

"Multiple Class Fund" means a Fund that has more than one Class.

"Registrant" means an open-end management investment company registered under the Investment Company Act.

"SAI" means the Statement of Additional Information required by Part B of this Form.

"Securities Act" means the Securities Act of 1933 [15 U.S.C. 77a et seq.].

"Securities Exchange Act" means the Securities Exchange Act of 1934 [15 U.S.C. 78a et seq.].

"Series" means shares offered by a Registrant that represent undivided interests in a portfolio of investments and that are preferred over all other series of shares for assets specifically allocated to that series in accordance with rule 18f-2(a) [17 CFR 270.18f-2(a)].

**B. Filing and Use of Form N-1A**

**1. What is Form N-1A used for?**

Form N-1A is used by Funds, except insurance company separate accounts and small business investment companies licensed under the United States Small Business Administration, to file:

(a) An initial registration statement under the Investment company Act and amendments to the registration statement, including amendments required by rule 8b-16 [17 CFR 270.8b-16];

(b) An initial registration statement under the Securities Act and amendments to the registration statement, including amendments required by section 10(a)(3) of the Securities Act [15 U.S.C. 77j(a)(3)]; or

(c) Any combination of the filings in paragraph (a) or (b).

**2. What is included in the registration statement?**

(a) For registration statements or amendments filed under both the Investment Company Act and the Securities Act or only under the Securities Act, include the facing sheet of the Form, Parts A, B, and C, and the required signatures.

(b) For registration statements or amendments filed only under the Investment Company Act, include the facing sheet of the Form, responses to all Items of Parts A (except Items 1, 2, 3, 4, 8A, and 13), B, and C (except Items 28(e) and (i) - (k)), and the required signatures.

**3. What are the fees for Form N-1A?**

No registration fees are required with the filing of Form N-1A to register as an investment company under the Investment Company Act or to register securities under the Securities Act. See section 24(f) [15 U.S.C. 80a-24(f)] and related rule 24f-2 [17 CFR 270.24f-2].

**4. What rules apply to the filing of a registration statement on Form N-1A?**

(a) For registration statements and amendments filed under both the Investment Company Act and the Securities Act or only under the Securities Act, the general rules regarding the filing of registration statements in Regulation C under the Securities Act [17 CFR 230.400 - 230.497] apply to the filing of Form N-1A. Specific requirements concerning Funds appear in rules 480 - 485 and 495 - 497 of Regulation C.

(b) For registration statements and amendments filed only under the Investment Company Act, the general provisions in rules 8b-1 - 8b-32 [17 CFR 270.8b-1 - 270.8b-32] apply to the filing of Form N-1A.

(c) The plain English requirements of rule 421 under the Securities Act [17 CFR 230.421] apply to prospectus disclosure in Part A of Form N-1A. The information required by

Items 2 through 8 must be provided in plain English under rule 421(d) under the Securities Act.

(d) Regulation S-T [17 CFR 232.10 - 232.903] applies to all filings on the Commission's Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR").

**C. Preparation of the Registration Statement**

**1. Administration of the Form N-1A requirements**

(a) The requirements of Form N-1A are intended to promote effective communication between the Fund and prospective investors. A Fund's prospectus should clearly disclose the fundamental characteristics and investment risks of the Fund, using concise, straightforward, and easy to understand language. A Fund should use document design techniques that promote effective communication. The prospectus should emphasize the Fund's overall investment approach and strategy.

(b) The prospectus disclosure requirements in Form N-1A are intended to elicit information for an average or typical investor who may not be sophisticated in legal or financial matters. The prospectus should help investors to evaluate the risks of an investment and to decide whether to invest in a Fund by providing a balanced disclosure of positive and negative factors. Disclosure in the prospectus should be designed to assist an investor in comparing and contrasting the Fund with other funds.

(c) Responses to the Items in Form N-1A should be as simple and direct as reasonably possible and should include only as much information as is necessary to enable an average or typical investor to understand the particular characteristics of the Fund. The prospectus should avoid: including lengthy legal and technical discussions; simply restating legal or regulatory requirements to which Funds generally are subject; and disproportionately emphasizing possible investments or activities of the Fund that are not a significant part of the Fund's investment operations. Brevity is especially important in describing the practices or aspects of the Fund's operations that do not differ materially from those of other investment companies. Avoid excessive detail, technical or legal terminology, and complex language. Also avoid lengthy sentences and paragraphs that may make the prospectus difficult for many investors to understand and detract from its usefulness.

(d) The requirements for prospectuses included in Form N-1A will be administered by the Commission in a way that will allow variances in disclosure or presentation if appropriate for the circumstances involved while remaining consistent with the objectives of Form N-1A.

**2. Form N-1A is divided into three parts**

(a) Part A. Part A includes the information required in a Fund's prospectus under section 10(a) of the Securities Act. The purpose of the prospectus is to provide essential information about the Fund in a way that will help investors to make informed decisions about

whether to purchase the Fund's shares described in the prospectus. In responding to the Items in Part A, avoid cross-references to the SAI or shareholder reports. Cross-references within the prospectus are most useful when their use assists investors in understanding the information presented and does not add complexity to the prospectus.

(b) Part B. Part B includes the information required in a Fund's SAI. The purpose of the SAI is to provide additional information about the Fund that the Commission has concluded is not necessary or appropriate in the public interest or for the protection of investors to be in the prospectus, but that some investors may find useful. Part B affords the Fund an opportunity to expand discussions of the matters described in the prospectus by including additional information that the Fund believes may be of interest to some investors. The Fund should not duplicate in the SAI information that is provided in the prospectus, unless necessary to make the SAI comprehensible as a document independent of the prospectus.

(c) Part C. Part C includes other information required in a Fund's registration statement.

**3. Additional Matters**

(a) Organization of Information. Organize the information in the prospectus and SAI to make it easy for investors to understand. Notwithstanding rule 421(a) under the Securities Act regarding the order of information required in a prospectus, disclose the information required by Items 2 through 8 in numerical order at the front of the prospectus. Do not precede these Items with any other Item except the Cover Page (Item 1) or a table of contents meeting the requirements of rule 481(c) under the Securities Act. Information that is included in response to Items 2 through 8 need not be repeated elsewhere in the prospectus, other than fee information required in both Item 3 and Item 8A. Disclose the information required by Item 12 (Distribution Arrangements) in one place in the prospectus. Only principal risks should be disclosed in the prospectus, in accordance with Items 4 and 9.

(b) Other Information. A Fund may include, except in response to Items 2 through 8A, information in the prospectus or the SAI that is not otherwise required. For example, a Fund may include charts, graphs, or tables so long as the information is not incomplete, inaccurate, or misleading and does not, because of its nature, quantity, or manner of presentation, obscure or impede understanding of the information that is required to be included. Items 2 through 8A may not include disclosure other than that required or permitted by those Items.

(c) Use of Form N-1A Registration Statement by More Than One Registrant, Series, or Class. A Form N-1A registration statement may be used by one or more Registrants, Series, or Classes.

(i) When disclosure is provided for more than one Fund or Class, the disclosure should be presented in a format designed to communicate the information effectively. Except as required by paragraph (c)(ii) for Items 2 through 8, Funds may order or group the response

to any Item in any manner that organizes the information into readable and comprehensible segments and is consistent with the intent of the prospectus to provide clear and concise information about the Funds or Classes. Funds are encouraged to use, as appropriate, tables, side-by-side comparisons, captions, bullet points, or other organizational techniques when presenting disclosure for multiple Funds or Classes.

(ii) Paragraph (a) requires Funds to disclose the information required by Items 2 through 8 in numerical order at the front of the prospectus and not to precede Items 2 through 8 with other information. Except as permitted by paragraph (c)(iii), a prospectus that contains information about more than one Fund must present all of the information required by Items 2 through 8 for each Fund sequentially and may not integrate the information for more than one Fund together. That is, a prospectus must present all of the information for a particular Fund that is required by Items 2 through 8 together, followed by all of the information for each additional Fund, and may not, for example, present all of the Item 2 (Risk/Return Summary: Investment Objectives/Goals) information for several Funds followed by all of the Item 3 (Risk/Return Summary: Fee Summary) information for several Funds. If a prospectus contains information about multiple Funds, clearly identify the name of the relevant Fund at the beginning of the information for the Fund that is required by Items 2 through 8. A Multiple Class Fund may present the information required by Items 2 through 8 separately for each Class or may integrate the information for multiple Classes, although the order of the information must be as prescribed in Items 2 through 8. For example, the prospectus may present all of the Item 2 (Risk/Return Summary: Investment Objectives/Goals) information for several Classes followed by all of the Item 3 (Risk/ Return Summary: Fee Summary) information for the Classes, or may present Items 2 and 3 for each of several Classes sequentially. Other presentations of multiple Class information also would be acceptable if they are consistent with the Form's intent to disclose the information required by Items 2 through 8 in a standard order at the beginning of the prospectus. For a Multiple Class Fund, clearly identify the relevant Classes at the beginning of the Items 2 through 8 information for those Classes.

(iii) A prospectus that contains information about more than one Fund may integrate the information required by any of Items 6 through 8 for all of the Funds together, provided that the information contained in any Item that is integrated is identical for all Funds covered in the prospectus. If the information required by any of Items 6 through 8 is integrated pursuant to this paragraph, the integrated information should be presented immediately following the separate presentations of Item 2 through 8 information for individual Funds. In addition, include a statement containing the following information in each Fund's separate presentation of Item 2 through 8 information, in the location where the integrated information is omitted: "For important information about [purchase and sale of

fund shares], [tax information], and [financial intermediary compensation], please turn to [identify section heading and page number of prospectus].”

(d) Modified Prospectuses for Certain Funds.

(i) A Fund may modify or omit, if inapplicable, the information required by Items 6, 11(b)-(d) and 12(a)(2)-(5) for funds used as investment options for:

(A) a defined contribution plan that meets the requirements for qualification under section 401(k) of the Internal Revenue Code [26 U.S.C. 401(k)];

(B) a tax-deferred arrangement under sections 403(b) or 457 of the Internal Revenue Code [26 U.S.C. 403(b) and 457]; and

(C) a variable contract as defined in section 817(d) of the Internal Revenue Code [26 U.S.C. 817(d)], if covered in a separate account prospectus.

(ii) A Fund that uses a modified prospectus under Instruction (d)(i) may:

(A) alter the legend required on the back cover page by Item 1(b)(1) to state, as applicable, that the prospectus is intended for use in connection with a defined contribution plan, tax-deferred arrangement, or variable contract; and

(B) modify other disclosure in the prospectus consistent with offering the Fund as a specific investment option for a defined contribution plan, tax-deferred arrangement, or variable contract.

(iii) A Fund may omit the information required by Items 4(b)(2)(iii)(B) and (C) and 4(b)(2)(iv) if the Fund’s prospectus will be used exclusively to offer Fund shares as investment options for one or more of the following:

(A) a defined contribution plan that meets the requirements for qualification under section 401(k) of the Internal Revenue Code [26 U.S.C. 401(k)], a tax-deferred arrangement under section 403(b) or 457 of the Internal Revenue Code [26 U.S.C. 403(b) or 457], a variable contract as defined in section 817(d) of the Internal Revenue Code [26 U.S.C. 817(d)], or a similar plan or arrangement pursuant to which an investor is not taxed on his or her investment in the Fund until the investment is sold; or

(B) persons that are not subject to the Federal income tax imposed under section 1 of the Internal Revenue Code [26 U.S.C. 1], or any successor to that section.

(iv) A Fund that omits information under Instruction (d)(iii) may alter the legend required on the back cover page by Item 1(b)(1) to state, as applicable, that the prospectus is intended for use in connection with a defined contribution plan, tax-deferred arrangement,

variable contract, or similar plan or arrangement, or persons described in Instruction (d)(iii)(B).

(e) Dates. Rule 423 under the Securities Act [17 CFR 230.423] applies to the dates of the prospectus and the SAI. The SAI should be made available at the same time that the prospectus becomes available for purposes of rules 430 and 460 under the Securities Act [17 CFR 230.430 and 230.460].

(f) Sales Literature. A Fund may include sales literature in the prospectus so long as the amount of this information does not add substantial length to the prospectus and its placement does not obscure essential disclosure.

(g) Interactive Data File.

(i) An Interactive Data File (§232.11 of this chapter) is required to be submitted to the Commission in the manner provided by rule 405 of Regulation S-T (§232.405 of this chapter) for any registration statement or post-effective amendment thereto on Form N-1A that includes or amends information provided in response to Items 2, 4, or 8A.

(A) Except as required by paragraph (g)(i)(B), the Interactive Data File must be submitted as an amendment to the registration statement to which the Interactive Data File relates. The amendment must be submitted on or before the date the registration statement or post-effective amendment that contains the related information becomes effective.

(B) In the case of a post-effective amendment to a registration statement filed pursuant to paragraphs (b)(1)(i), (ii), (v), or (vii) of rule 485 under the Securities Act [17 CFR 230.485(b)], the Interactive Data File must be submitted either with the filing, or as an amendment to the registration statement to which the Interactive Data Filing relates that is submitted on or before the date the post-effective amendment that contains the related information becomes effective.

(ii) An Interactive Data File is required to be submitted to the Commission in the manner provided by rule 405 of Regulation S-T for any form of prospectus filed pursuant to paragraphs (c) or (e) of rule 497 under the Securities Act [17 CFR 230.497(c) or (e)] that includes information provided in response to Items 2, 4, or 8A that varies from the registration statement. The Interactive Data File must be submitted with the filing made pursuant to rule 497.

(iii) The Interactive Data File must be submitted in accordance with the specifications in the EDGAR Filer Manual, and in such a manner that will permit the

information for each Series and, for any information that does not relate to all of the Classes in a filing, each Class of the Fund to be separately identified.

**D. Incorporation by Reference**

**1. Specific rules for incorporation by reference in Form N-1A registration statement**

(a) A Fund may not incorporate by reference into a prospectus information that Part A of this Form requires to be included in a prospectus, except as specifically permitted by Part A of the Form.

(b) A Fund may incorporate by reference any or all of the SAI into the prospectus (but not to provide any information required by Part A to be included in the prospectus) without delivering the SAI with the prospectus.

(c) A Fund may incorporate by reference into the SAI or its response to Part C, information that Parts B and C require to be included in the Fund's registration statement.

**2. General Requirements**

All incorporation by reference must comply with the requirements of this Form and the following rules on incorporation by reference: rule 411 under the Securities Act [17 CFR 230.411] (general rules on incorporation by reference in a prospectus); rule 303 of Regulation S– T [17 CFR 232.303] (specific requirements for electronically filed documents); and rule 0-4 [17 CFR 270.0-4] (additional rules on incorporation by reference for Funds).

**Part A – INFORMATION REQUIRED IN A PROSPECTUS**

**Item 1. Front and Back Cover Pages**

(a) Front Cover Page. Include the following information, in plain English under rule 421(d) under the Securities Act, on the outside front cover page of the prospectus:

(1) The Fund's name and the Class or Classes, if any, to which the prospectus relates.

(2) The exchange ticker symbol of the Fund's shares or, if the prospectus relates to one or more Classes of the Fund's shares, adjacent to each such Class, the exchange ticker

symbol of such Class of the Fund's shares. If the Fund is an Exchange-Traded Fund, also identify the principal U.S. market or markets on which the Fund shares are traded.

(3) The date of the prospectus.

(4) The statement required by rule 481(b)(1) under the Securities Act.

**Instruction**. A Fund may include on the front cover page a statement of its investment objectives, a brief (*e.g.*, one sentence) description of its operations, or any additional information, subject to the requirement set out in General Instruction C.3(b).

(b) Back Cover Page. Include the following information, in plain English under rule 421(d) under the Securities Act, on the outside back cover page of the prospectus:

(1) A statement that the SAI includes additional information about the Fund, and a statement to the following effect:

Additional information about the Fund's investments is available in the Fund's annual and semi-annual reports to shareholders and in Form N-CSR. In the Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year. In Form N-CSR, you will find the Fund's annual and semi-annual financial statements.

Explain that the SAI, the Fund's annual and semi-annual reports to shareholders, and Form N-CSR are available, without charge, upon request, and explain how shareholders in the Fund may make inquiries to the Fund. Provide a toll-free telephone number for investors to call: to request the SAI; to request the Fund's annual or semi-annual report; to request the Form N-CSR; to request other information about the Fund; and to make shareholder inquiries. Also, state the Fund makes available its SAI, annual and semi- annual report, and Form N-CSR, free of charge, on or through the Fund's website at a specified address. If the Fund does not make its SAI and shareholder reports available in this manner, disclose the reasons why it does not do so (including, where applicable, that the Fund does not have a website).

**Instructions**

1. A Fund may indicate, if applicable, that the SAI, annual and semi-annual report, Form N-CSR, and other information are available by email request.

2. A Fund may indicate, if applicable, that the SAI and other information are available from a financial intermediary (such as a broker-dealer or bank) through which shares of the Fund may be purchased or sold. When a Fund (or financial intermediary through which shares of the Fund may be purchased or sold) receives a request for the SAI, the annual report, the semi-annual report, or Form N-CSR, the Fund (or financial intermediary) must send the

requested document within 3 business days of receipt of the request, by first-class mail or other means designed to ensure equally prompt delivery.

3. A Fund that has not yet been required to deliver an annual or semi-annual report to shareholders under rule 30e-1 [17 CFR 270.30e-1] or to file a Form N-CSR report may omit the statements required by this paragraph regarding the report.

4. A Money Market Fund may omit the sentence indicating that a reader will find in the Fund's annual report a discussion of the market conditions and investment strategies that significantly affect the Fund's performance during its last fiscal year.

(2) A statement whether and from where information is incorporated by reference into the prospectus as permitted by General Instruction D. Unless the information is delivered with the prospectus, explain that the Fund will provide the information without charge, upon request (referring to the telephone number provided in response to paragraph (b)(1)).

**Instruction**. The Fund may combine the information about incorporation by reference with the statements required under paragraph (b)(1).

(3) State that reports and other information about the Fund are available on the EDGAR Database on the Commission's website at http://www.sec.gov, and that copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov.

(4) The Fund's Investment Company Act file number on the bottom of the back cover page in type size smaller than that generally used in the prospectus (*e.g.*, 8-point modern type).

**Item 2. Risk/Return Summary: Investment Objectives/Goals**

Disclose the Fund's investment objectives or goals. A Fund also may identify its type or category (*e.g.*, that it is a Money Market Fund or a balanced fund).

**Item 3. Risk/Return Summary: Fee Summary**

Include the following information, in plain English under rule 421(d) under the Securities Act, after Item 2:

*Your Investment Costs*

**These are the amounts you could pay to buy, hold, and sell shares of the Fund. These costs reduce the value of your investment. You may pay other fees, such as**

**brokerage commissions and other fees to financial intermediaries, which are not reflected in the table and example below.**

| ***Transaction Fees*** (fees paid each time you buy or sell) | |
|---|---|
| Purchase Charge (as a percentage of your investment) | [Up to] ___%<br>(Or [up to] $__, if you invest $10,000) |
| Exit Charge (as a percentage of ___) | [Up to] ___%<br>(Or [up to] $__, if you invest $10,000) |
| Maximum Purchase Charge Imposed on Reinvested Dividends [and Other Distributions] (as a percentage of ___) | [Up to] ___%<br>(Or [up to] $__, if you invest $10,000) |
| Early Exit Fee (as a percentage of amount redeemed) | [Up to] ___%<br>(Or [up to] $__, if you invest $10,000) |
| Exchange Fee | [Up to] ___%<br>(Or [up to] $__, if you invest $10,000) |
| ***Maximum Account Fee*** | [Up to] ___%<br>(Or [up to] $__, if you invest $10,000) |
| ***Ongoing Annual Fees*** (estimated expenses you pay each year as a percentage of the value of your investment) | |
| Ongoing Annual Fees | ___%<br>(Or $__, if you invest $10,000) |
| Ongoing Annual Fees with Temporary Discount* | ___%<br>(Or $__, if you invest $10,000) |

*Discount expected to end on [date].

***Example***

This example may help you understand the costs of investing in the Fund. The example assumes that: (1) you invest $10,000 in the Fund; (2) your investment has a 5% return each year; and (3) the Fund's operating expenses are based on the table above.

| | 1 year | 10 years |
|---|---|---|
| Although your actual costs may be higher or lower, | $__ | $__ |

| | | |
|---|---|---|
| based on these assumptions, your costs would be: | | |
| If you sold your shares at the end of the relevant period, your costs would be: | $__ | $__ |

The example does not reflect purchase charges on reinvested dividends [and other distributions]. If these purchase charges were included, your costs would be higher.

***Portfolio Turnover***

Portfolio turnover measures how often a fund buys and sells its investments. A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes. The Fund's annual portfolio turnover rate is ___%.

***Instructions***

1. *General*

(a) Round all dollar figures to the nearest dollar and all percentages to the nearest hundredth of one percent.

(b) Include the narrative explanations in the order indicated. A Fund may modify the narrative explanations if the explanation contains comparable information to that shown.

(c) Footnotes and other extraneous disclosure are not permitted, except that a footnote is permitted in a case where omitting it would cause the disclosure to be materially misleading, in that fees borne by the investor would be materially higher than fees presented in the fee summary.

(d) If the Fund offers sales charge discounts, include "up to" before the maximum transaction fee amount in the table.

(e) If the prospectus offers more than one Class of a Multiple Class Fund or more than one Feeder Fund that invests in the same Master Fund, provide a separate response for each Class or Feeder Fund.

(f) If the Fund is an Exchange-Traded Fund, exclude any fees charged for the purchase and redemption of the Fund's creation units.

2. *Transaction Fees*. Based on the information given in response to Item 8A, provide the maximum purchase charge, maximum exit charge, maximum purchase charge on reinvested dividends and other distributions, early exit fee, and exchange fee. Also disclose the dollar value of the maximum purchase charge, maximum exit charge, maximum purchase charge on reinvested dividends and other distributions, early exit fee, and exchange fee, based on a $10,000 investment. Any transaction fees equaling $0 should not be included and the

applicable line item should be omitted. However, a Multiple Class Fund that shows a charge and line item because one Class imposes a charge may show 0 as the charge for the other Classes.

3. *Maximum Account Fee*. Based on the information given in response to Item 8A, provide the maximum account fee. Also disclose the dollar value of the maximum account fee based on a $10,000 investment. Any account fee equaling $0 should not be included and the maximum account fee line item should be omitted.

4. *Ongoing Annual Fees*

(a) Based on the information given in response to Item 8A, provide the total Ongoing Annual Fees. If the Fund is a New Fund, include a parenthetical after the total Ongoing Annual Fees to state that the amount is estimated.

(b) If there are expense reimbursement or fee waiver arrangements that will reduce any Fund operating expenses for no less than one year from the effective date of the Fund's registration statement, a Fund may also show the Fund's net expenses after subtracting the fee reimbursement or expense waiver from the total Ongoing Annual Fees under a caption titled "Ongoing Annual Fees with Temporary Discount." The Fund should place this additional caption directly below the "Ongoing Annual Fees" caption of the table. If the Fund provides this disclosure, provide in a footnote the expected termination date of the expense reimbursement or fee waiver arrangement.

(c) Also disclose the dollar value of the total Ongoing Annual Fees and, as applicable, the dollar value of the total Ongoing Annual Fees with Temporary Discount based on a $10,000 investment.

(d) If the Fund is including disclosure responsive to instruction 4(f)(ii) of Item 8A, provide the footnote required by that instruction.

5. *Example*

(a) Calculate the example in accordance with Instruction 5 to Item 8A for 1- and 10-year periods. If the Fund is a New Fund, as described in Instruction 7 to Item 8A, provide information for 1- and 3-year periods in the Example and estimate any shareholder account fees collected.

(b) Include the second 1- and 10-year periods and related narrative explanation only if an exit charge or other fee is charged upon redemption.

6. *Portfolio Turnover*. Disclose the portfolio turnover rate provided in response to Item 13(a) for the most recent fiscal year (or for such shorter period as the Fund has been in operation). Disclose the period for which the information is provided if less than a full fiscal

year. A Fund that is a Money Market Fund may omit the portfolio turnover information required by this Item.

**Item 4. Risk/Return Summary: Investments, Risks, and Performance**

Include the following information, in plain English under rule 421(d) under the Securities Act, in the order and subject matter indicated:

(a) Principal Investment Strategies of the Fund.

Based on the information given in response to Item 9(b), summarize how the Fund intends to achieve its investment objectives by identifying the Fund's principal investment strategies (including the type or types of securities in which the Fund invests or will invest principally) and any policy to concentrate in securities of issuers in a particular industry or group of industries.

(b) Principal Risks of Investing in the Fund.

(1) Narrative Risk Disclosure.

(i) Based on the information given in response to Item 9(c), briefly summarize the principal risks of investing in the Fund, including the risks to which the Fund's portfolio as a whole is subject and the circumstances reasonably likely to affect adversely the Fund's net

asset value, yield, and total return. Unless the Fund is a Money Market Fund, disclose that loss of money is a risk of investing in the Fund.

**Instructions**.

1. A Fund may, in responding to this Item, describe the types of investors for whom the Fund is intended or the types of investment goals that may be consistent with an investment in the Fund.

2. A Fund should describe principal risks in order of importance, with the most significant risks appearing first. A Fund may use any reasonable means of determining the significance of risks. A Fund should not describe principal risks in alphabetical order.

3. A Fund should, where appropriate, tailor risk disclosures to how the Fund operates rather than rely on generic, standard risk disclosures.

(ii) Statements Provided by Money Market Funds.

(A) If the Fund is a Money Market Fund that is not a government Money Market Fund, as defined in §270.2a-7(a)(16) or a retail Money Market Fund, as defined in § 270.2a-7(a)(25), include the following statement:

You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

(B) If the Fund is a Money Market Fund that is a government Money Market Fund, as defined in § 270.2a-7(a)(16), or a retail Money Market Fund, as defined in § 270.2a-7(a)(25), and that is subject to the requirements of §§ 270.2a-7(c)(2)(i) and/or (ii) of this chapter (or is not subject to the requirements of §§ 270.2a-7(c)(2)(i) and/or (ii) of this chapter pursuant to § 270.2a-7(c)(2)(iii) of this chapter, but has chosen to rely on the ability to impose liquidity fees and suspend redemptions consistent with the requirements of §§ 270.2a-7(c)(2)(i) and/or (ii)), include the following statement:

You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal

obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

(C) If the Fund is a Money Market Fund that is a government Money Market Fund, as defined in § 270.2a-7(a)(16), that is not subject to the requirements of §§ 270.2a-7(c)(2)(i) and/or (ii) of this chapter pursuant to § 270.2a-7(c)(2)(iii) of this chapter, and that has not chosen to rely on the ability to impose liquidity fees and suspend redemptions consistent with the requirements of §§ 270.2a-7(c)(2)(i) and/or (ii), include the following statement:

You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time.

**Instruction**. If an affiliated person, promoter, or principal underwriter of the Fund, or an affiliated person of such a person, has contractually committed to provide financial support to the Fund, and the term of the agreement will extend for at least one year following the effective date of the Fund's registration statement, the statement specified in Item 4(b)(1)(ii)(A), Item 4(b)(1)(ii)(B), or Item 4(b)(1)(ii)(C) may omit the last sentence ("The Fund's sponsor has no legal obligation to provide financial support to the Fund, and you should not expect that the sponsor will provide financial support to the Fund at any time."). For purposes of this Instruction, the term "financial support" includes any capital contribution, purchase of a security from the Fund in reliance on § 270.17a-9, purchase of any defaulted or devalued security at par, execution of letter of credit or letter of indemnity, capital support agreement (whether or not the Fund ultimately received support), performance guarantee, or any other similar action reasonably intended to increase or stabilize the value or liquidity of the fund's portfolio; however, the term "financial support" excludes any routine waiver of fees or reimbursement of fund expenses, routine inter-fund lending, routine inter-fund purchases of fund shares, or any action that would qualify as financial support as defined above, that the board of directors has otherwise determined not to be reasonably intended to increase or stabilize the value or liquidity of the fund's portfolio.

(iii) If the Fund is advised by or sold through an insured depository institution, state that:

An investment in the Fund is not a deposit of the bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

**Instruction**. A Money Market Fund that is advised by or sold through an insured depository institution should combine the disclosure required by Items 4(b)(1)(ii) and (iii) in a single statement.

(iv) If applicable, state that the Fund is non-diversified, describe the effect of non-diversification (*e.g.*, disclose that, compared with other funds, the Fund may invest a greater

percentage of its assets in a particular issuer), and summarize the risks of investing in a non-diversified fund.

(2) Risk/Return Bar Chart and Table.

(i) Include the bar chart and table required by paragraphs (b)(2)(ii) and (iii) of this section. Provide a brief explanation of how the information illustrates the variability of the Fund's returns (*e.g.*, by stating that the information provides some indication of the risks of investing in the Fund by showing changes in the Fund's performance from year to year and by showing how the Fund's average annual returns for 1, 5, and 10 years compare with those of a broad measure of market performance). Provide a statement to the effect that the Fund's past performance (before and after taxes) is not a good predictor of the Fund's future performance. If applicable, include a statement explaining that updated performance information is available and providing a website address and/or toll-free telephone number where the updated information may be obtained.

(ii) If the Fund has annual returns for at least one calendar year, provide a bar chart showing the Fund's annual total returns for each of the last 10 calendar years (or for the life of the Fund if less than 10 years), but only for periods subsequent to the effective date of the Fund's registration statement. Present the corresponding numerical return adjacent to each bar. If the Fund's fiscal year is other than a calendar year, include the year-to-date return information as of the end of the most recent quarter in a footnote to the bar chart. Following the bar chart, disclose the Fund's highest and lowest return for a quarter during the 10 years or other period of the bar chart.

(iii) If the Fund has annual returns for at least one calendar year, provide a table showing the Fund's (A) average annual total return; (B) average annual total return (after taxes on distributions); and (C) average annual total return (after taxes on distributions and redemption). A Money Market Fund should show only the returns described in clause (A) of the preceding sentence. All returns should be shown for 1-, 5-, and 10- calendar year periods ending on the date of the most recently completed calendar year (or for the life of the Fund, if shorter), but only for periods subsequent to the effective date of the Fund's registration statement. The table also should show the returns of an appropriate broad-based securities market index as defined in Instruction 6 to Item 27A(d)(2) for the same periods. A Fund that has been in existence for more than 10 years also may include returns for the life of the Fund. A Money Market Fund may provide the Fund's 7-day yield ending on the date of the most recent calendar year or disclose a toll-free telephone number that investors can use to obtain the Fund's current 7-day yield. For a Fund (other than a Money Market Fund or a Fund

described in General Instruction C.3.(d)(iii)), provide the information in the following table with the specified captions:

| **AVERAGE ANNUAL TOTAL RETURNS** *(For the periods ended December 31, ____)* | | | |
|---|---|---|---|
| | **1 year** | **5 years** *(or Life of Fund)* | **10 years** *(or Life of Fund)* |
| Return Before Taxes | __% | __% | __% |
| Return After Taxes on Distributions | __% | __% | __% |
| Return After Taxes on Distributions and Sale of Fund Shares | __% | __% | __% |
| Index (*reflects no deduction for [fees, expenses, or taxes]*) | __% | __% | __% |

(iv) Adjacent to the table required by paragraph 4(b)(2)(iii), provide a brief explanation that:

(A) After-tax returns are calculated using the historical highest individual Federal marginal income tax rates and do not reflect the impact of state and local taxes;

(B) Actual after-tax returns depend on an investor's tax situation and may differ from those shown, and after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts;

(C) If the Fund is a Multiple Class Fund that offers more than one Class in the prospectus, after- tax returns are shown for only one Class and after-tax returns for other Classes will vary; and

(D) If average annual total return (after taxes on distributions and redemption) is higher than average annual total return, the reason for this result may be explained.

**Instructions**

1. *Bar Chart*.

(a) Provide annual total returns beginning with the earliest calendar year. Calculate annual returns using the Instructions to Item 13(a), except that the calculations should be based on calendar years. If a Fund's shares are sold subject to a sales charge (*e.g.*, purchase charge or exit charge) or account fees, state that sales charges or account fees are not

reflected in the bar chart and that, if these amounts were reflected, returns would be less than those shown.

(b) For a Fund that provides annual total returns for only one calendar year or for a Fund that does not include the bar chart because it does not have annual returns for a full calendar year, modify, as appropriate, the narrative explanation required by paragraph (b)(2)(i) (*e.g.*, by stating that the information gives some indication of the risks of an investment in the Fund by comparing the Fund's performance with a broad measure of market performance).

2. *Table*.

(a) Calculate a Money Market Fund's 7-day yield under Item 26(a); the Fund's average annual total return under Item 26(b)(1); and the Fund's average annual total return (after taxes on distributions) and average annual total return (after taxes on distributions and redemption) under Items 26(b)(2) and (3), respectively.

(b) A Fund may include, in addition to the required broad-based securities market index, information for one or more other indexes as permitted by Instruction 7 to Item 27A(d)(2). If an additional index is included, disclose information about the additional index in the narrative explanation accompanying the bar chart and table (*e.g.*, by stating that the information shows how the Fund's performance compares with the returns of an index of funds with similar investment objectives).

(c) If the Fund selects an index that is different from the index used in a table for the immediately preceding period, explain the reason(s) for the selection of a different index and provide information for both the newly selected and the former index.

(d) A Fund (other than a Money Market Fund) may include the Fund's yield calculated under Item 26(b)(2). Any Fund may include its tax-equivalent yield calculated under Item 26. If a Fund's yield is included, provide a toll-free telephone number that investors can use to obtain current yield information.

(e) Returns required by paragraphs 4(b)(2)(iii)(A), (B), and (C) for a Fund or Series must be adjacent to one another and appear in that order. The returns for a broad-based securities market index, as required by paragraph 4(b)(2)(iii), must precede or follow all of the returns for a Fund or Series rather than be interspersed with the returns of the Fund or Series.

3. *Multiple Class Funds*.

(a) When a Multiple Class Fund presents information for more than one Class together in response to Item 4(b)(2), provide annual total returns in the bar chart for only one

of those Classes. The Fund can select which Class to include (*e.g.*, the oldest Class, the Class with the greatest net assets) if the Fund:

(i) Selects the Class with 10 or more years of annual returns if other Classes have fewer than 10 years of annual returns;

(ii) Selects the Class with the longest period of annual returns when the Classes all have fewer than 10 years of returns; and

(iii) If the Fund provides annual total returns in the bar chart for a Class that is different from the Class selected for the most immediately preceding period, explain in a footnote to the bar chart the reasons for the selection of a different Class.

(b) When a Multiple Class Fund offers a new Class in a prospectus and separately presents information for the new Class in response to Item 4(b)(2), include the bar chart with annual total returns for any other existing Class for the first year that the Class is offered. Explain in a footnote that the returns are for a Class that is not presented that would have substantially similar annual returns because the shares are invested in the same portfolio of securities and the annual returns would differ only to the extent that the Classes do not have the same expenses. Include return information for the other Class reflected in the bar chart in the performance table.

(c) When a Multiple Class Fund presents information for more than one Class together in response to Item 4(b)(2):

(i) Provide the returns required by paragraph 4(b)(2)(iii)(A) of this Item for each of the Classes;

(ii) Provide the returns required by paragraphs 4(b)(2)(iii)(B) and (C) of this Item for only one of those Classes. The Fund may select the Class for which it provides the returns required by paragraphs 4(b)(2)(iii)(B) and (C) of this Item, provided that the Fund:

(A) Selects a Class that has been offered for use as an investment option for accounts other than those described in General Instruction C.3.(d)(iii)(A);

(B) Selects a Class described in paragraph (c)(ii)(A) of this Instruction with 10 or more years of annual returns if other Classes described in paragraph (c)(ii)(A) of this Instruction have fewer than 10 years of annual returns;

(C) Selects the Class described in paragraph (c)(ii)(A) of this Instruction with the longest period of annual returns if the Classes described in paragraph (c)(ii)(A) of this Instruction all have fewer than 10 years of returns; and

(D) If the Fund provides the returns required by paragraphs 4(b)(2)(iii)(B) and (C) of this Item for a Class that is different from the Class selected for the most immediately

preceding period, explain in a footnote to the table the reasons for the selection of a different Class;

(iii) The returns required by paragraphs 4(b)(2)(iii)(A), (B), and (C) of this Item for the Class described in paragraph (c)(ii) of this Instruction should be adjacent and should not be interspersed with the returns of other Classes; and

(iv) All returns shown should be identified by Class.

(d) If a Multiple Class Fund offers a Class in the prospectus that converts into another Class after a stated period, compute average annual total returns in the table by using the returns of the other Class for the period after conversion.

4. *Change in Investment Adviser*. If the Fund has not had the same investment adviser during the last 10 calendar years, the Fund may begin the bar chart and the performance information in the table on the date that the current adviser began to provide advisory services to the Fund subject to the conditions in Instruction 12 of Item 27A(d)(2).

**Item 5. Management**

(a) *Investment Adviser(s)*. Provide the name of each investment adviser of the Fund, including sub-advisers.

**Instructions**

1. A Fund need not identify a sub-adviser whose sole responsibility for the Fund is limited to day-to-day management of the Fund's holdings of cash and cash equivalent instruments, unless the Fund is a Money Market Fund or other Fund with a principal investment strategy of regularly holding cash and cash equivalent instruments.

2. A Fund having three or more sub-advisers, each of which manages a portion of the Fund's portfolio, need not identify each such sub-adviser, except that the Fund must identify any sub-adviser that is (or is reasonably expected to be) responsible for the management of a significant portion of the Fund's net assets. For purposes of this paragraph, a significant portion of a Fund's net assets generally will be deemed to be 30% or more of the Fund's net assets.

(b) *Portfolio Manager(s)*. State the name, title, and length of service (or year service began) of the person or persons employed by or associated with the Fund or an

investment adviser of the Fund who are primarily responsible for the day-to-day management of the Fund's portfolio ("Portfolio Manager").

**Instructions**

1. This requirement does not apply to a Money Market Fund.

2. If a committee, team, or other group of persons associated with the Fund or an investment adviser of the Fund is jointly and primarily responsible for the day-to-day management of the Fund's portfolio, information in response to this Item is required for each member of such committee, team, or other group. If more than five persons are jointly and primarily responsible for the day-to-day management of the Fund's portfolio, the Fund need only provide information for the five persons with the most significant responsibility for the day-to-day management of the Fund's portfolio.

**Item 6. Purchase and Sale of Fund Shares**

(a) *Purchase of Fund Shares*. Disclose the Fund's minimum initial or subsequent investment requirements.

(b) *Sale of Fund Shares*. Also disclose that the Fund's shares are redeemable and briefly identify the procedures for redeeming shares (*e.g.*, on any business day by written request, telephone, or wire transfer).

(c) *Exchange-Traded Funds*. If the Fund is an Exchange-Traded Fund, the Fund may omit the information required by paragraphs (a) and (b) of this Item and must disclose:

(1) That Individual Fund shares may only be bought and sold in the secondary market through a broker or dealer at market price;

(2) That because ETF shares trade at market prices rather than net asset value, shares may trade at a price greater than net asset value (premium) or less than net asset value (discount);

(3) That an investor may incur costs attributable to the difference between the highest price a buyer is willing to purchase shares of the Fund (bid) and the lowest price a

seller is willing to accept for shares of the Fund (ask) when buying or selling shares in the secondary market (the "bid-ask spread");

(4) If applicable, how to access recent information, including information on the Fund's net asset value, Market Price, premiums and discounts, and bid-ask spreads, on the Exchange-Traded Fund's website; and

(5) The median bid-ask spread for the Fund's most recent year.

**Instructions**

1. A Fund may omit the information required by paragraph (c)(5) of this Item if it satisfies the requirements of paragraph (c)(1)(v) of Rule 6c-11 [17 CFR 270.6c-11(c)(1)(v)] under the Investment Company Act.

2. An Exchange-Traded Fund that had its initial listing on a national securities exchange at or before the beginning of the most recently completed fiscal year must include the median bid-ask spread for the Fund's most recent fiscal year. For an Exchange-Traded Fund that had an initial listing after the beginning of the most recently completed fiscal year, explain that the Exchange-Traded Fund did not have a sufficient trading history to report trading information and related costs. Information should be based on the most recently completed fiscal year end.

3. Bid-Ask Spread (Median). Calculate the median bid-ask spread by dividing the difference between the national best bid and national best offer by the mid-point of the national best bid and national best offer as of the end of each ten-second interval throughout each trading day of the Exchange-Traded Fund's most recent fiscal year. Once the bid-ask spread for each ten-second interval throughout the fiscal year is determined, sort the spreads from lowest to highest. If there is an odd number of spread intervals, then the median is the middle number. If there is an even number of spread intervals, then the median is the average between the two middle numbers. Express the spread as a percentage, rounded to the nearest hundredth percent.

4. A Fund may combine the information required by Item 6(c)(4) into the information required by Item 1(b)(1) and Rule 498(b)(1)(v) [17 CFR 230.498(b)(1)(v)] under the Securities Act.

**Item 7. Tax Information**

State, as applicable, that the Fund intends to make distributions that may be taxed as ordinary income or capital gains or that the Fund intends to distribute tax-exempt income. For a Fund that holds itself out as investing in securities generating tax-exempt income,

provide, as applicable, a general statement to the effect that a portion of the Fund's distributions may be subject to Federal income tax.

**Item 8. Financial Intermediary Compensation**

Include the following statement. A Fund may modify the statement if the modified statement contains comparable information. A Fund may omit the statement if neither the Fund nor any of its related companies pay financial intermediaries for the sale of Fund shares or related services.

*Payments to Broker-Dealers and Other Financial Intermediaries.*

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's website for more information.

**Item 8A. Fee Table**

Include the following information, in plain English under rule 421(d) under the Securities Act:

*Fees and Expenses of the Fund*

**This table describes the fees and expenses that you could pay if you buy, hold, and sell shares of the Fund. These costs reduce the value of your investment. You may pay other fees, such as brokerage commissions and other fees to financial intermediaries, which are not reflected in the table and example below. You may qualify for sales charge discounts if you and your family invest, or agree to invest in the future, at least $[ ] in [name of fund family] funds. More information about these and other discounts is available from your financial professional and in [identify section**

**heading and page number] of the Fund's prospectus and [identify section heading and page number] of the Fund's statement of additional information.**

| ***Transaction Fees*** (fees paid each time you buy or sell) | |
|---|---|
| Purchase Charge (as a percentage of your investment) | ___% |
| Exit Charge (as a percentage of ___) | ___% |
| Maximum Purchase Charge Imposed on Reinvested Dividends [and Other Distributions] (as a percentage of ___) | ___% |
| Early Exit Fee (as a percentage of amount redeemed, if applicable) | ___% |
| Exchange Fee | ___% |
| ***Maximum Account Fee*** | ___% |
| ***Ongoing Annual Fees*** (estimated expenses you pay each year as a percentage of the value of your investment) | |
| Management Fees | ___% |
| Selling Fees | ___% |
| Other Expenses | ___% |
| _____ | ___% |
| _____ | ___% |
| _____ | ___% |
| Total Ongoing Annual Fees | ___% |
| Temporary Discount | ___% |
| Total Ongoing Annual Fees with Temporary Discount | ___% |

***Example***

This example may help you understand the cost of investing in the Fund. The example assumes that: (1) you invest $10,000 in the Fund; (2) your investment has a 5% return each year; and (3) the Fund's operating expenses are based on the table above.

| | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|
| Although your actual costs may be higher or lower, based on these assumptions, your costs would be: | $__ | $__ | $__ | $__ |
| If you sold your shares at the end of the relevant period, your costs would be: | $__ | $__ | $__ | $__ |

The example does not reflect purchase charges on reinvested dividends [and other distributions]. If these purchase charges were included, your costs would be higher.

***Portfolio Turnover***

Portfolio turnover measures how often a fund buys and sells its investments. A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes. The Fund's annual portfolio turnover rate is ____%.

**Instructions**

1. *General*

(a) Round all dollar figures to the nearest dollar and all percentages to the nearest hundredth of one percent.

(b) Include the narrative explanations in the order indicated. A Fund may modify the narrative explanations if the explanation contains comparable information to that shown. The narrative explanation regarding sales charge discounts is only required by a Fund that offers such discounts and should specify the minimum level of investment required to qualify for a discount as disclosed in the table required by Item 12(a)(1).

(c) Include the caption "Maximum Account Fees" only if the Fund charges these fees. A Fund may omit other captions if the Fund does not charge the fees or expenses covered by the captions.

(d) Multiple Class and Master-Feeder Funds

(i) If the Fund is a Feeder Fund, reflect the aggregate expenses of the Feeder Fund and the Master Fund in a single fee table using the captions provided. In a footnote to the fee table, state that the table and Example reflect the expenses of both the Feeder and Master Funds.

(ii) If the prospectus offers more than one Class of a Multiple Class Fund or more than one Feeder Fund that invests in the same Master Fund, provide a separate response for each Class or Feeder Fund.

(e) If the Fund is an Exchange-Traded Fund, exclude any fees charged for the purchase and redemption of the Fund's creation units.

2. *Transaction Fees*

(a) "Purchase Charge" is the sales charge (load) imposed on purchases, expressed as a percentage of the offering price. Provide the maximum purchase charge.

(b) "Exit Charge" includes the total deferred sales charge (load) payable upon redemption, in installments, or both, expressed as a percentage of the amount or amounts stated in response to Item 12(a). Provide the maximum exit charge. A Fund may include in a footnote to the table, if applicable, a tabular presentation showing the amount of exit charges

over time or a narrative explanation of the exit charges (*e.g.*, __% in the first year after purchase, declining to __% in the ___ year and eliminated thereafter).

(c) If more than one type of sales charge (load) is imposed (*e.g.*, a purchase charge and an exit charge), the first caption in the table should read "Maximum Combined Purchase and Exit Charge" and show the maximum cumulative percentage. Show the percentage amounts and the terms of each sales charge (load) comprising that figure on separate lines below.

(d) If a purchase charge is imposed on shares purchased with reinvested capital gains distributions or returns of capital, include the bracketed words in the "Maximum Purchase Charge Imposed on Reinvested Dividends" caption.

(e) "Early Exit Fee" includes a fee charged for any redemption of the Fund's shares, but does not include an exit charge upon redemption, and, if the Fund is a Money Market Fund, does not include a liquidity fee imposed upon the sale of Fund shares in accordance with rule 2a-7(c)(2).

(f) "Exchange Fee" includes the maximum fee charged for any exchange or transfer of interest from the Fund to another fund. The Fund may include in a footnote to the table, if applicable, a tabular presentation of the range of exchange fees or a narrative explanation of the fees.

3. *Maximum Account Fees*. Disclose account fees that may be charged to a typical investor in the Fund; fees that apply to only a limited number of shareholders based on their particular circumstances need not be disclosed. Include a caption describing the maximum account fee (*e.g.*, "Maximum Account Maintenance Fee" or "Maximum Cash Management Fee"). State the maximum annual account fee as either a fixed dollar amount or a percentage of assets. Include in a parenthetical to the caption the basis on which any percentage is calculated. If an account fee is charged only to accounts that do not meet a certain threshold (*e.g.*, accounts under $5,000), the Fund may include the threshold in a parenthetical to the caption or footnote to the table. The Fund may include an explanation of any non-recurring account fee in a parenthetical to the caption or in a footnote to the table.

4. *Ongoing Annual Fees*

(a) "Management Fees" include investment advisory fees (including any fees based on the Fund's performance), any other management fees payable to the investment adviser or its affiliates, and administrative fees payable to the investment adviser or its affiliates that are not included as "Other Expenses."

(b) "Selling Fees" include all distribution or other expenses incurred during the most recent fiscal year under a plan adopted pursuant to rule 12b-1 [17 CFR 270.12b-1]. Under an appropriate caption or a subcaption of "Other Expenses," disclose the amount of any

distribution or similar expenses deducted from the Fund's assets other than pursuant to a rule 12b-1 plan.

(c) "Other Expenses"

(i) "Other Expenses" include all expenses not otherwise disclosed in the table that are deducted from the Fund's assets or charged to all shareholder accounts. The amount of expenses deducted from the Fund's assets are the amounts shown as expenses in the Fund's statement of operations (including increases resulting from complying with paragraph 2(g) of rule 6-07 of Regulation S-X [17 CFR 210.6-07]).

(ii) "Other Expenses" do not include extraordinary expenses. "Extraordinary expenses" refers to expenses that are distinguished by their unusual nature and by the infrequency of occurrence. Unusual nature means the expense has a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the fund, taking into account the environment in which the fund operates. Infrequency of occurrence means the expense is not reasonably expected to recur in the foreseeable future, taking into consideration the environment in which the fund operates. The environment of a fund includes such factors as the characteristics of the industry or industries in which it operates, the geographical location of its operations, and the nature and extent of governmental regulation. If extraordinary expenses were incurred that materially affected the Fund's "Other Expenses," disclose in a footnote to the table what "Other Expenses" would have been had the extraordinary expenses been included.

(iii) The Fund may subdivide this caption into no more than three subcaptions that identify the largest expense or expenses comprising "Other Expenses," but must include a total of all "Other Expenses." Alternatively, the Fund may include the components of "Other Expenses" in a parenthetical to the caption.

(d) "Ongoing Annual Fees"

(i) Base the percentages of "Ongoing Annual Fees" on amounts incurred during the Fund's most recent fiscal year, but include in expenses amounts that would have been incurred absent expense reimbursement or fee waiver arrangements. If the Fund has changed its fiscal year and, as a result, the most recent fiscal year is less than three months, use the

fiscal year prior to the most recent fiscal year as the basis for determining "Ongoing Annual Fees."

(ii) If there have been any changes in "Ongoing Annual Fees" that would materially affect the information disclosed in the table:

(A) Restate the expense information using the current fees as if they had been in effect during the previous fiscal year; and

(B) In a footnote to the table, disclose that the expense information in the table has been restated to reflect current fees.

(iii) A change in "Ongoing Annual Fees" means either an increase or a decrease in expenses that occurred during the most recent fiscal year or that is expected to occur during the current fiscal year. A change in "Ongoing Annual Fees" does not include a decrease in operating expenses as a percentage of assets due to economies of scale or breakpoints in a fee arrangement resulting from an increase in the Fund's assets.

(e) If there are expense reimbursement or fee waiver arrangements that will reduce any Fund operating expenses for no less than one year from the effective date of the Fund's registration statement, a Fund may add two captions to the table: one caption showing the amount of the expense reimbursement or fee waiver, and a second caption showing the Fund's net expenses after subtracting the fee reimbursement or expense waiver from the total fund operating expenses. The Fund should place these additional captions directly below the "Total Ongoing Annual Fees" caption of the table and should use appropriate descriptive captions, such as "Temporary Discount" and "Total Ongoing Annual Fees with Temporary Discount," respectively. If the Fund provides this disclosure, also disclose the period for which the expense reimbursement or fee waiver arrangement is expected to continue, including the expected termination date, and briefly describe who can terminate the arrangement and under what circumstances.

(f) Acquired Fund Fees and Expenses

(i) If the Fund (unless it is a Feeder Fund) invests in shares of one or more Acquired Funds, add a subcaption to the "Ongoing Annual Fees" portion of the table directly above the subcaption titled "Total Ongoing Annual Fees." Title the additional subcaption: "Acquired Fund Fees and Expenses." Disclose in the subcaption fees and expenses incurred indirectly by the Fund as a result of investment in shares of one or more Acquired Funds. For purposes of this item, an "Acquired Fund" means any company in which the Fund invests or has invested during the relevant fiscal period that (A) is an investment company or (B) would be an investment company under section 3(a) of the Investment Company Act [15 U.S.C. 80a-3(a)] but for the exceptions to that definition provided for in sections 3(c)(1) and 3(c)(7) of the Investment Company Act [15 U.S.C. 80a-3(c)(1) and 80a-3(c)(7)]. If a Fund uses another

term in response to other requirements of this Form to refer to Acquired Funds, it may include that term in parentheses following the subcaption title.

(ii) A Fund may omit the Acquired Fund Fees and Expenses subcaption in the table if the ratio of the Acquiring Fund's investments in Acquired Funds (excluding Money Market Funds) to the Fund's total assets for the prior fiscal year, as calculated as described below, is 10 percent or less and the Fund discloses in a footnote to the table: the amount of the Fund's Acquired Fund Fees and Expenses, and a statement that the Fund's [Total] Ongoing Annual Fees in the table would be higher if these fees and expenses were included. Calculate the ratio in the following manner.

(A) For each of the 12 months that compose the prior fiscal year, divide the Fund's investments in Acquired Funds (excluding Money Market Funds) as of the end of the month by the Fund's total assets as of the end of the month. This will produce

12 data items (or fewer if the Fund has been in operation for less than a full fiscal year).

(B) Calculate the average of the 12 (or fewer) data items. This figure is the ratio.

(iii) Determine the "Acquired Fund Fees and Expenses" according to the following formula:

$$\text{AFFE} = \frac{[(F_1 / FY) * AI_1 * D_1] + [(F_2 / FY) * AI_2 * D_2] + [(F_3 / FY) * AI_3 * D_3] + \text{Transaction Fees} + \text{Incentive Allocations}}{\text{Average Net Assets of the Registrant}}$$

**Where**:

| | |
|---|---|
| AFFE | = Acquired Fund fees and expenses; |
| $F_1$, $F_2$, $F_3$,… | = Total annual operating expense ratio for each Acquired Fund; |
| FY | = Number of days in the relevant fiscal year (or the number of days since the date the Fund made its first investment, if less than a year); |
| $AI_1$, $AI_2$, $AI_3$,… | = Average invested balance in each Acquired Fund; |
| $D_1$, $D_2$, $D_3$,… | = Number of days invested in each Acquired Fund; |
| "Transaction Fees" | = The total amount of purchase charges, exit charges, redemption fees, or other transaction fees paid by the Fund in connection with acquiring or disposing of shares in any Acquired Funds during the most recent fiscal year; and |
| "Incentive Allocations" | = Any allocation of capital from the Acquiring Fund to the adviser of the Acquired Fund (or its affiliate based on a percentage of the Acquiring Fund's income, capital gains and/or appreciation in the Acquired Fund. |

(iv) Calculate the average net assets of the Fund for the most recent fiscal year, as provided in Item 13(a) (see Instruction 4 to Item 13(a)).

(v) The total annual operating expense ratio used for purposes of this calculation (F1) is the annualized ratio of operating expenses to average net assets for the Acquired Fund's most recent fiscal period as disclosed in the Acquired Fund's most recent shareholder report. If the ratio of expenses to average net assets is not included in the most recent shareholder report, or the Acquired Fund is a newly formed fund that has not provided a shareholder report, then the ratio of expenses to average net assets of the Acquired Fund is the ratio of total annual operating expenses to average annual net assets of the Acquired Fund for

its most recent fiscal period as disclosed in the most recent communication from the Acquired Fund to the Fund. For purposes of this Instruction: (i) Acquired Fund expenses include increases resulting from brokerage service and expense offset arrangements and reductions resulting from fee waivers or reimbursements by the Acquired Funds' investment advisers or sponsors; and (ii) Acquired Fund expenses do not include expenses (i.e., performance fees) that are incurred solely upon the realization and/or distribution of a gain. If an Acquired Fund has no operating history, include in the Acquired Funds' expenses any fees payable to the Acquired Fund's investment adviser or its affiliates stated in the Acquired Fund's registration statement, offering memorandum or other similar communication without giving effect to any performance.

(vi) To determine the average invested balance ($AI_1$) the numerator is the sum of the amount initially invested in an Acquired Fund during the most recent fiscal year (if the investment was held at the end of the previous fiscal year, use the amount invested as of the end of the previous fiscal year) and the amounts invested in the Acquired Fund no less frequently than monthly during the period the investment is held by the Fund (if the investment was held through the end of the fiscal year, use each month-end through and including the fiscal year end). Divide the numerator by the number of measurement points included in the calculation of the numerator (i.e., if an investment is made during the fiscal year and held for 3 succeeding months, the denominator would be 4).

(vii) A New Fund should base the Acquired Fund fees and expenses and the percent invested in Acquired Funds on assumptions of the specific Acquired Funds in which the New Fund expects to invest. Disclose in a footnote to the table that Acquired Fund fees and expenses are based on estimated amounts for the current fiscal year.

(viii) If the Fund includes the Acquired Fund fees and expenses subcaption in the table, the Fund may clarify in a footnote to the fee table that the Total Ongoing Annual Fees under Item 8A do not correlate to the ratio of expenses to average net assets given in the fund's shareholder reports or in response to Item 13, which reflects the operating expenses of the Fund and does not include Acquired Fund fees and expenses.

5. *Example*

(a) Assume that the percentage amounts listed under "Ongoing Annual Fees" remain the same in each year of the 1-, 3-, 5-, and 10-year periods, except that an adjustment may be made to reflect any expense reimbursement or fee waiver arrangements that will reduce any Fund operating expenses for no less than one year from the effective date of the Fund's registration statement. An adjustment to reflect any expense reimbursement or fee

waiver arrangement may be reflected only in the period(s) for which the expense reimbursement or fee waiver arrangement is expected to continue.

(b) For any breakpoint in any fee, assume that the amount of the Fund's assets remains constant as of the level at the end of the most recently completed fiscal year.

(c) Assume reinvestment of all dividends and distributions.

(d) Reflect recurring and non-recurring fees charged to all investors other than any exchange fees or any purchase charges on shares purchased with reinvested dividends or other distributions. If purchase charges are imposed on reinvested dividends or other distributions, include the narrative explanation following the Example and include the bracketed words when purchase charges are charged on reinvested capital gains distributions or returns of capital. Reflect any shareholder account fees collected by more than one Fund by dividing the total amount of the fees collected during the most recent fiscal year for all Funds whose shareholders are subject to the fees by the total average net assets of the Funds. Add the resulting percentage to "Ongoing Annual Fees" and assume that it remains the same in each of the 1-, 3-, 5-, and 10-year periods. A Fund that charges account fees based on a minimum account requirement exceeding $10,000 may adjust its account fees based on the amount of the fee in relation to the Fund's minimum account requirement.

(e) Include the second 1-, 3-, 5-, and 10-year periods and related narrative explanation only if an exit charge or other fee is charged upon redemption. Reflect any exit charge by assuming redemption of the entire account at the end of the year in which the exit charge is due. In the case of an exit charge that is based on the Fund's net asset value at the time of payment, assume that the net asset value at the end of each year includes the 5% annual return for that and each preceding year.

6. *Portfolio Turnover*. Disclose the portfolio turnover rate provided in response to Item 13(a) for the most recent fiscal year (or for such shorter period as the Fund has been in operation). Disclose the period for which the information is provided if less than a full fiscal year. A Fund that is a Money Market Fund may omit the portfolio turnover information required by this Item.

7. *New Funds*. For purposes of this Item, a "New Fund" is a Fund that does not include in Form N-1A financial statements reporting operating results or that includes financial statements for the Fund's initial fiscal year reporting operating results for a period of 6 months or less. The following Instructions apply to New Funds.

(a) Base the percentages expressed in "Ongoing Annual Fees" on payments that will be made, but include in expenses, amounts that will be incurred without reduction for expense reimbursement or fee waiver arrangements, estimating amounts of "Other Expenses."

Disclose in a footnote to the table that "Other Expenses" are based on estimated amounts for the current fiscal year.

(b) Complete only the 1- and 3-year period portions of the Example and estimate any shareholder account fees collected.

**Item 9. Investment Objectives, Principal Investment Strategies, Related Risks, and Disclosure of Portfolio Holdings**

(a) *Investment Objectives*. State the Fund's investment objectives and, if applicable, state that those objectives may be changed without shareholder approval.

(b) *Implementation of Investment Objectives*. Describe how the Fund intends to achieve its investment objectives. In the discussion:

(1) Describe the Fund's principal investment strategies, including the particular type or types of securities in which the Fund principally invests or will invest.

**Instructions**

1. A strategy includes any policy, practice, or technique used by the Fund to achieve its investment objectives.

2. Whether a particular strategy, including a strategy to invest in a particular type of security, is a principal investment strategy depends on the strategy's anticipated importance in achieving the Fund's investment objectives, and how the strategy affects the Fund's potential risks and returns. In determining what a principal investment strategy is, consider, among other things, the amount of the Fund's assets expected to be committed to the strategy, the amount of the Fund's assets expected to be placed at risk by the strategy, and the likelihood of the Fund's losing some or all of those assets from implementing the strategy.

3. A negative strategy (*e.g.*, a strategy not to invest in a particular type of security or not to borrow money) is not a principal investment strategy.

4. Disclose any policy to concentrate in securities of issuers in a particular industry or group of industries (i.e., investing more than 25% of a Fund's net assets in a particular industry or group of industries).

5. Disclose any other policy specified in Item 16(c)(1) that is a principal investment strategy of the Fund.

6. Disclose, if applicable, that the Fund may, from time to time, take temporary defensive positions that are inconsistent with the Fund's principal investment strategies in attempting to respond to adverse market, economic, political, or other conditions. Also

disclose the effect of taking such a temporary defensive position (*e.g.*, that the Fund may not achieve its investment objective).

7. Disclose whether the Fund (if not a Money Market Fund) may engage in active and frequent trading of portfolio securities to achieve its principal investment strategies. If so, explain the tax consequences to shareholders of increased portfolio turnover, and how the tax consequences of, or trading costs associated with, a Fund's portfolio turnover may affect the Fund's performance.

(2) Explain in general terms how the Fund's adviser decides which securities to buy and sell (*e.g.*, for an equity fund, discuss, if applicable, whether the Fund emphasizes value or growth or blends the two approaches).

(c) *Risks*. Disclose the principal risks of investing in the Fund, including the risks to which the Fund's particular portfolio as a whole is expected to be subject and the circumstances reasonably likely to affect adversely the Fund's net asset value, yield, or total return.

**Instructions**

1. In determining whether a risk is a principal risk, a Fund should consider whether the risk would place more than 10% of the Fund's assets at risk, or whether it is

reasonably likely that the risk would place more than 10% of the Fund's assets at risk in the future.

2. In the case of an Acquiring Fund, risks should only be included if they are principal risks of the Acquiring Fund. A principal risk of an Acquired Fund should not be included unless it is a principal risk of the Acquiring Fund.

3. If a Fund's strategy provides the freedom to invest in different types of assets at the manager's discretion, disclose that an investor may not know – and has no way to know – how the fund will invest in the future and its associated risks.

(d) *Portfolio Holdings*. State that a description of the Fund's policies and procedures with respect to the disclosure of the Fund's portfolio securities is available (i) in the Fund's SAI; and (ii) on the Fund's website, if applicable.

**Item 10. Management, Organization, and Capital Structure**

(a) *Management*.

(1) *Investment Adviser*.

(i) Provide the name and address of each investment adviser of the Fund, including sub advisers. Describe the investment adviser's experience as an investment adviser and the advisory services that it provides to the Fund.

(ii) Describe the compensation of each investment adviser of the Fund as follows:

(A) If the Fund has operated for a full fiscal year, state the aggregate fee paid to the adviser for the most recent fiscal year as a percentage of average net assets. If the Fund has

not operated for a full fiscal year, state what the adviser's fee is as a percentage of average net assets, including any breakpoints.

(B) If the adviser's fee is not based on a percentage of average net assets (*e.g.*, the adviser receives a performance-based fee), describe the basis of the adviser's compensation.

**Instructions**

1. If the Fund changed advisers during the fiscal year, describe the compensation and the dates of service for each adviser.

2. Explain any changes in the basis of computing the adviser's compensation during the fiscal year.

3. If a Fund has more than one investment adviser, disclose the aggregate fee paid to all of the advisers, rather than the fees paid to each adviser, in response to this Item.

(2) *Portfolio Manager*. For each Portfolio Manager identified in response to Item 5(b), state the Portfolio Manager's business experience during the past 5 years. Include a statement, adjacent to the foregoing disclosure, that the SAI provides additional information about the Portfolio Manager's(s') compensation, other accounts managed by the Portfolio Manager(s), and the Portfolio Manager's(s') ownership of securities in the Fund. If a Portfolio Manager is a member of a committee, team, or other group of persons associated with the Fund or an investment adviser of the Fund that is jointly and primarily responsible for the day-to-day management of the Fund's portfolio, provide a brief description of the person's role on the committee, team, or other group (*e.g.*, lead member), including a description of any limitations on the person's role and the relationship between the person's role and the roles of other persons who have responsibility for the day-to-day management of the Fund's portfolio.

(3) *Legal Proceedings*. Describe any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Fund or the Fund's investment adviser or principal underwriter is a party. Include the name of the court in which the proceedings are pending, the date instituted, the principal parties involved, a description of the factual basis alleged to underlie the proceeding, and the relief sought. Include similar information as to any legal proceedings instituted, or known to be contemplated, by a governmental authority.

**Instruction**. For purposes of this requirement, legal proceedings are material only to the extent that they are likely to have a material adverse effect on the Fund or the ability of the investment adviser or principal underwriter to perform its contract with the Fund.

(b) *Capital Stock*. Disclose any unique or unusual restrictions on the right freely to retain or dispose of the Fund's shares or material obligations or potential liabilities associated

with holding the Fund's shares (not including investment risks) that may expose investors to significant risks.

**Item 11. Shareholder Information**

(a) *Pricing of Fund Shares*. Describe the procedures for pricing the Fund's shares, including:

(1) An explanation that the price of Fund shares is based on the Fund's net asset value and the method used to value Fund shares (market price, fair value, or amortized cost); except that if the Fund is an Exchange-Traded Fund, an explanation that the price of Fund shares is based on a market price.

**Instruction**. A Fund (other than a Money Market Fund) must provide a brief explanation of the circumstances under which it will use fair value pricing and the effects of using fair value pricing. With respect to any portion of a Fund's assets that are invested in one or more open-end management investment companies that are registered under the Investment Company Act, the Fund may briefly explain that the Fund's net asset value is calculated based upon the net asset values of the registered open-end management investment companies in which the Fund invests, and that the prospectuses for these companies explain the circumstances under which those companies will use fair value pricing and the effects of using fair value pricing.

(2) A statement as to when calculations of net asset value are made and that the price at which a purchase or redemption is effected is based on the next calculation of net asset value after the order is placed.

(3) A statement identifying in a general manner any national holidays when shares will not be priced and specifying any additional local or regional holidays when the Fund shares will not be priced.

**Instructions**

1. In responding to this Item, a Fund may use a list of specific days or any other means that effectively communicates the information (*e.g.*, explaining that shares will not be priced on the days on which the New York Stock Exchange is closed for trading).

2. If the Fund has portfolio securities that are primarily listed on foreign exchanges that trade on weekends or other days when the Fund does not price its shares,

disclose that the net asset value of the Fund's shares may change on days when shareholders will not be able to purchase or redeem the Fund's shares.

(b) *Purchase of Fund Shares*. Describe the procedures for purchasing the Fund's shares.

(c) *Redemption of Fund Shares*. Describe the procedures for redeeming the Fund's shares, including:

(1) Any restrictions on redemptions.

(2) Any redemption charges, including how these charges will be collected and under what circumstances the charges will be waived.

(3) Any procedure that a shareholder can use to sell the Fund's shares to the Fund or its underwriter through a broker-dealer, noting any charges that may be imposed for such service.

**Instruction**. The specific fees paid through the broker-dealer for such service need not be disclosed.

(4) The circumstances, if any, under which the Fund may redeem shares automatically without action by the shareholder in accounts below a certain number or value of shares.

(5) The circumstances, if any, under which the Fund may delay honoring a request for redemption for a certain time after a shareholder's investment (*e.g.*, whether a Fund does not process redemptions until clearance of the check for the initial investment).

(6) Any restrictions on, or costs associated with, transferring shares held in street name accounts.

(7) The number of days following receipt of shareholder redemption requests in which the fund typically expects to pay out redemption proceeds to redeeming shareholders. If the number of days differs by method of payment (*e.g.*, check, wire, automated clearing house), then disclose the typical number of days or estimated range of days that the fund expects it will take to pay out redemptions proceeds for each method used.

(8) The methods that the Fund typically expects to use to meet redemption requests, and whether those methods are used regularly, or only in stressed market conditions

(*e.g.*, sales of portfolio assets, holdings of cash or cash equivalents, lines of credit, interfund lending, and/or ability to redeem in kind).

(d) *Dividends and Distributions*. Describe the Fund's policy with respect to dividends and distributions, including any options that shareholders may have as to the receipt of dividends and distributions.

(e) *Frequent Purchases and Redemptions of Fund Shares*.

(1) Describe the risks, if any, that frequent purchases and redemptions of Fund shares by Fund shareholders may present for other shareholders of the Fund.

(2) State whether or not the Fund's board of directors has adopted policies and procedures with respect to frequent purchases and redemptions of Fund shares by Fund shareholders.

(3) If the Fund's board of directors has not adopted any such policies and procedures, provide a statement of the specific basis for the view of the board that it is appropriate for the Fund not to have such policies and procedures.

(4) If the Fund's board of directors has adopted any such policies and procedures, describe those policies and procedures, including:

(i) Whether or not the Fund discourages frequent purchases and redemptions of Fund shares by Fund shareholders;

(ii) Whether or not the Fund accommodates frequent purchases and redemptions of Fund shares by Fund shareholders; and

(iii) Any policies and procedures of the Fund for deterring frequent purchases and redemptions of Fund shares by Fund shareholders, including any restrictions imposed by the Fund to prevent or minimize frequent purchases and redemptions. Describe each of these policies, procedures, and restrictions with specificity. Indicate whether each of these restrictions applies uniformly in all cases or whether the restriction will not be imposed under certain circumstances, including whether each of these restrictions applies to trades that occur through omnibus accounts at intermediaries, such as investment advisers, broker-dealers, transfer agents, third party administrators, and insurance companies. Describe with specificity

the circumstances under which any restriction will not be imposed. Include a description of the following restrictions, if applicable:

(A) Any restrictions on the volume or number of purchases, redemptions, or exchanges that a shareholder may make within a given time period;

(B) Any exchange fee or redemption fee;

(C) Any costs or administrative or other fees or charges that are imposed on shareholders deemed to be engaged in frequent purchases and redemptions of Fund shares, together with a description of the circumstances under which such costs, fees, or charges will be imposed;

(D) Any minimum holding period that is imposed before an investor may make exchanges into another Fund;

(E) Any restrictions imposed on exchange or purchase requests submitted by overnight delivery, electronically, or via facsimile or telephone; and

(F) Any right of the Fund to reject, limit, delay, or impose other conditions on exchanges or purchases or to close or otherwise limit accounts based on a history of frequent purchases and redemptions of Fund shares, including the circumstances under which such right will be exercised.

(5) If applicable, include a statement, adjacent to the disclosure required by paragraphs (e)(1) through (e)(4) of this Item, that the SAI includes a description of all arrangements with any person to permit frequent purchases and redemptions of Fund shares.

(f) *Tax Consequences*.

(1) Describe the tax consequences to shareholders of buying, holding, exchanging and selling the Fund's shares, including, as applicable, that:

(i) The Fund intends to make distributions that may be taxed as ordinary income and capital gains (which may be taxable at different rates depending on the length of time the Fund holds its assets). If the Fund expects that its distributions, as a result of its investment

objectives or strategies, will consist primarily of ordinary income or capital gains, provide disclosure to that effect.

(ii) The Fund's distributions, whether received in cash or reinvested in additional shares of the Fund, may be subject to Federal income tax.

(iii) An exchange of the Fund's shares for shares of another fund will be treated as a sale of the Fund's shares and any gain on the transaction may be subject to Federal income tax.

(2) For a Fund that holds itself out as investing in securities generating tax-exempt income:

(i) Modify the disclosure required by paragraph (f)(1) to reflect that the Fund intends to distribute tax- exempt income.

(ii) Also disclose, as applicable, that:

(A) The Fund may invest a portion of its assets in securities that generate income that is not exempt from Federal or state income tax;

(B) Income exempt from Federal tax may be subject to state and local income tax; and

(C) Any capital gains distributed by the Fund may be taxable.

(3) If the Fund does not expect to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code [I.R.C. 851 et seq.], explain the tax consequences. If the Fund expects to pay an excise tax under the Internal Revenue Code [I.R.C. 4982] with respect to its distributions, explain the tax consequences.

(g) *Exchange-Traded Funds*. If the Fund is an Exchange-Traded Fund:

(1) The Fund may omit from the prospectus the information required by Items 11(a)(2), (b), and (c).

(2) Provide a table showing the number of days the Market Price of the Fund shares was greater than the Fund's net asset value and the number of days it was less than the Fund's net asset value (i.e., premium or discount) for the most recently completed calendar year, and the most recently completed calendar quarters since that year (or the life of the Fund, if shorter). The Fund may omit the information required by this paragraph if it satisfies

the requirements of paragraphs (c)(1)(ii)-(iv) and (c)(1)(vi) of Rule 6c-11 [17 CFR 270.6c-11(c)(1)(ii)-(iv) and (c)(1)(vi)] under the Investment Company Act.

**Instruction**

1. Provide the information in tabular form.

2. Express the information as a percentage of the net asset value of the Fund, using separate columns for the number of days the Market Price was greater than the Fund's net asset value and the number of days it was less than the Fund's net asset value. Round all percentages to the nearest hundredth of one percent.

3. Adjacent to the table, provide a brief explanation that: shareholders may pay more than net asset value when they buy Fund shares and receive less than net asset value when they sell those shares, because shares are bought and sold at current market prices.

4. Include a statement that the data presented represents past performance and cannot be used to predict future results.

**Item 12. Distribution Arrangements**

(a) *Sales Loads*.

(1) Describe any sales loads, including exit charges, applied to purchases of the Fund's shares. Include in a table any purchase charge (and each breakpoint in the charge, if any) as a percentage of both the offering price and the net amount invested.

Instructions

1. If the Fund's shares are sold subject to a purchase charge, explain that the term "offering price" includes the purchase charge.

2. Disclose, if applicable, that purchase charges are imposed on shares, or amounts representing shares, that are purchased with reinvested dividends or other distributions.

3. Discuss, if applicable, how exit charges are imposed and calculated, including:

(a) Whether the specified percentage of the exit charge is based on the offering price, or the lesser of the offering price or net asset value at the time the exit charge is paid.

(b) The amount of the exit charge as a percentage of both the offering price and the net amount invested.

(c) A description of how the exit charge is calculated (*e.g.*, in the case of a partial redemption, whether or not the exit charge is calculated as if shares or amounts representing

shares not subject to an exit charge are redeemed first, and other shares or amounts representing shares are then redeemed in the order purchased).

(d) If applicable, the method of paying an installment exit charge (*e.g.*, by withholding of dividend payments, involuntary redemptions, or separate billing of a shareholder's account).

(2) Unless disclosed in response to paragraph (a)(1), briefly describe any arrangements that result in breakpoints in, or elimination of, purchase charges or exit charges (*e.g.*, letters of intent, accumulation plans, dividend reinvestment plans, withdrawal plans, exchange privileges, employee benefit plans, redemption reinvestment plans, and waivers for particular classes of investors). Identify each class of individuals or transactions to which the arrangements apply and state each different breakpoint as a percentage of both the offering price and the net amount invested. If applicable, state that additional information concerning purchase charge or exit charge breakpoints is available in the Fund's SAI.

**Instructions**

1. The description, pursuant to paragraph (a)(1) or (a)(2) of this Item 12, of arrangements that result in breakpoints in, or elimination of, purchase charges or exit charges must include a brief summary of shareholder eligibility requirements, including a description or list of the types of accounts (*e.g.*, retirement accounts, accounts held at other financial intermediaries), account holders (*e.g.*, immediate family members, family trust accounts, solely controlled business accounts), and fund holdings (*e.g.*, funds held within the same fund complex) that may be aggregated for purposes of determining eligibility for purchase charge or exit charge breakpoints.

2. The description pursuant to paragraph (a)(2) of this Item 12 need not contain any information required by Items 17(d) and 23(b).

(3) Describe, if applicable, the methods used to value accounts in order to determine whether a shareholder has met purchase charge or exit charge breakpoints, including the circumstances in which and the classes of individuals to whom each method applies. Methods that should be described, if applicable, include historical cost, net amount invested, and offering price.

(4) Eligibility for Breakpoints

(i) State, if applicable, that, in order to obtain a breakpoint discount, it may be necessary at the time of purchase for a shareholder to inform the Fund or his or her financial intermediary of the existence of other accounts in which there are holdings eligible to be aggregated to meet purchase charge or exit charge breakpoints. Describe any information or records, such as account statements, that it may be necessary for a shareholder to provide to

the Fund or his or her financial intermediary in order to verify his or her eligibility for a breakpoint discount. This description must include, if applicable:

(A) Information or records regarding shares of the Fund or other funds held in all accounts (*e.g.*, retirement accounts) of the shareholder at the financial intermediary;

(B) Information or records regarding shares of the Fund or other funds held in any account of the shareholder at another financial intermediary; and

(C) Information or records regarding shares of the Fund or other funds held at any financial intermediary by related parties of the shareholder, such as members of the same family or household.

(ii) If the Fund permits eligibility for breakpoints to be determined based on historical cost, state that a shareholder should retain any records necessary to substantiate historical costs because the Fund, its transfer agent, and financial intermediaries may not maintain this information.

(5) State whether the Fund makes available free of charge, on or through the Fund's website at a specified address, and in a clear and prominent format, the information required by paragraphs (a)(1) through (a)(4) and Item 23(a), including whether the website includes hyperlinks that facilitate access to the information. If the Fund does not make the information required by paragraphs (a)(1) through (a)(4) and Item 23(a) available in this manner, disclose the reasons why it does not do so (including, where applicable, that the Fund does not have a website).

**Instruction**. All information required by paragraph (a) of this Item 12 must be adjacent to the table required by paragraph (a)(1) of this Item 12; must be presented in a clear, concise, and understandable manner; and must include tables, schedules, and charts as expressly required by paragraph (a)(1) of this Item 12 or where doing so would facilitate understanding.

(b) *Selling Fees*. If the Fund has adopted a plan under rule 12b-1, state the amount of the distribution fee payable under the plan and provide disclosure to the following effect:

(1) The Fund has adopted a plan under rule 12b-1 that allows the Fund to pay distribution fees for the sale and distribution of its shares; and

(2) Because these fees are paid out of the Fund's assets on an on-going basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

**Instruction**. If the Fund pays service fees under its rule 12b-1 plan, modify this disclosure to reflect the payment of these fees (*e.g.*, by indicating that the Fund pays distribution and other fees for the sale of its shares and for services provided to shareholders).

For purposes of this paragraph, service fees have the same meaning given that term under FINRA rule 2341.

(c) *Multiple Class and Master-Feeder Funds*.

(1) Describe the main features of the structure of the Multiple Class Fund or Master-Feeder Fund.

(2) If more than one Class of a Multiple Class Fund is offered in the prospectus, provide the information required by paragraphs (a) and (b) for each of those Classes.

(3) If a Multiple Class Fund offers in the prospectus shares that provide for mandatory or automatic conversions or exchanges from one Class to another Class, provide the information required by paragraphs (a) and (b) for both the shares offered and the Class into which the shares may be converted or exchanged.

(4) If a Feeder Fund has the ability to change the Master Fund in which it invests, describe briefly the circumstances under which the Feeder Fund can do so.

**Instruction**. A Feeder Fund that does not have the authority to change its Master Fund need not disclose the possibility and consequences of its no longer investing in the Master Fund.

**Item 13. Financial Highlights Information**

(a) Provide the following information for the Fund, or for the Fund and its subsidiaries, audited for at least the latest 5 years and consolidated as required in Regulation S-X [17 CFR 210].

*Financial Highlights*

**The financial highlights table is intended to help you understand the Fund's financial performance for the past 5 years [or, if shorter, the period of the Fund's operations]. Certain information reflects financial results for a single Fund share. The total returns in the table represent the rate that an investor would have earned [or lost] on an investment in the Fund (assuming reinvestment of all dividends and distributions). This information has been audited by _____, whose report, along with the Fund's**

**financial statements, are included in [the SAI or annual Form N-CSR report], and are available on the Fund's website and upon request.**

Net Asset Value, Beginning of Period

*Income From Investment Operations*

Net Investment Income

Net Gains or Losses on Securities (both realized and unrealized)

Total From Investment Operations

*Less Distributions*

Dividends (from net investment income)

Distributions (from capital gains)

Returns of Capital

Total Distributions

Net Asset Value, End of Period

Per Share Market Value, End of Period [for ETFs only]

*Total Return*

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*Ratios/Supplemental Data*

Net Assets, End of Period

Ratio of Expenses to Average Net Assets

Ratio of Net Income to Average Net Assets

Portfolio Turnover Rate

**Instructions**

1. *General*.

(a) Present the information in comparative columnar form for each of the last 5 fiscal years of the Fund (or for such shorter period as the Fund has been in operation), but only for periods subsequent to the effective date of the Fund's registration statement. Also present the information for the period between the end of the latest fiscal year and the date of the latest balance sheet or statement of assets and liabilities. When a period in the table is for

less than a full fiscal year, a Fund may annualize ratios in the table and disclose that the ratios are annualized in a note to the table.

(b) List per share amounts at least to the nearest cent. If the offering price is expressed in tenths of a cent or more, then state the amounts in the table in tenths of a cent. Present the information using a consistent number of decimal places.

(c) Include the narrative explanation before the financial information. A Fund may modify the explanation if the explanation contains comparable information to that shown.

2. *Per Share Operating Performance*.

(a) Derive net investment income data by adding (deducting) the increase (decrease) per share in undistributed net investment income for the period to (from) dividends from net investment income per share for the period. The increase (decrease) per share may be derived by comparing the per share figures obtained by dividing undistributed net investment income at the beginning and end of the period by the number of shares outstanding on those dates. Other methods of computing net investment income may be acceptable. Provide an explanation in a note to the table of any other method used to compute net investment income.

(b) The amount shown at the Net Gains or Losses on Securities caption is the balancing figure derived from the other amounts in the statement. The amount shown at this caption for a share outstanding throughout the year may not agree with the change in the

aggregate gains and losses in the portfolio securities for the year because of the timing of sales and repurchases of the Fund's shares in relation to fluctuating market values for the portfolio.

(c) For any distributions made from sources other than net investment income and capital gains, state the per share amounts separately at the Returns of Capital caption and note the nature of the distributions.

3. *Total Return*.

(a) To calculate total return based on net asset value per share:

(i) Assume an initial investment made at the net asset value calculated on the last business day before the first day of each period shown.

(ii) Do not reflect purchase charges, exit charges, or account fees in the initial investment, but, if purchase charges, exit charges, or account fees are imposed, note that they are not reflected in total return.

(iii) Reflect any purchase charge assessed upon reinvestment of dividends or distributions.

(iv) Assume a redemption at the price calculated on the last business day of each period shown.

(v) For a period less than a full fiscal year, state the total return for the period and disclose that total return is not annualized in a note to the table.

(b) For ETFs only, present as a separate caption total return based on market value per share. To calculate total return based on per share market value, assume a purchase of common stock at the current market price on the first day and a sale at the current market price on the last day of each period reported on the table. A Registrant also should briefly explains in a note the differences between this calculation and the calculation required by Instruction 3(a).

4. *Ratios/Supplemental Data*.

(a) Calculate "average net assets" based on the value of the net assets determined no less frequently than the end of each month.

(b) Calculate the Ratio of Expenses to Average Net Assets using the amount of expenses shown in the Fund's statement of operations for the relevant fiscal period, including increases resulting from complying with paragraph 2(g) of rule 6-07 of Regulation S-X and

reductions resulting from complying with paragraphs 2(a) and (f) of rule 6-07 regarding fee waivers and reimbursements.

(c) A Fund that is a Money Market Fund may omit the Portfolio Turnover Rate.

(d) Calculate the Portfolio Turnover Rate as follows:

(i) Divide the lesser of amounts of purchases or sales of portfolio securities for the fiscal year by the monthly average of the value of the portfolio securities owned by the Fund during the fiscal year. Calculate the monthly average by totaling the values of portfolio securities as of the beginning and end of the first month of the fiscal year and as of the end of each of the succeeding 11 months and dividing the sum by 13.

(ii) Exclude from both the numerator and the denominator amounts relating to all securities, including options, whose maturities or expiration dates at the time of acquisition were one year or less. Include all long-term securities, including long-term U.S. Government securities. Purchases include any cash paid upon the conversion of one portfolio security into another and the cost of rights or warrants. Sales include net proceeds of the sale of rights and warrants and net proceeds of portfolio securities that have been called or for which payment has been made through redemption or maturity.

(iii) If the Fund acquired the assets of another investment company or of a personal holding company in exchange for its own shares during the fiscal year in a purchase-of-assets transaction, exclude the value of securities acquired from purchases and securities sold from sales to realign the Fund's portfolio. Adjust the denominator of the portfolio turnover computation to reflect these excluded purchases and sales and disclose them in a footnote.

(iv) Include in purchases and sales any short sales that the Fund intends to maintain for more than one year and put and call options with expiration dates more than one year from the date of acquisition. Include proceeds from a short sale in the value of the portfolio securities sold during the period; include the cost of covering a short sale in the value of portfolio securities purchased during the period. Include premiums paid to purchase options in the value of portfolio securities purchased during the reporting period; include premiums received from the sale of options in the value of the portfolio securities sold during the period.

(e) A Fund may incorporate by reference the Financial Highlights Information from Form N-CSR into the prospectus in response to this Item if the Fund transmits the annual report required by rule 30e-1(b) with the prospectus or, if the report has been

previously transmitted (*e.g.*, to a current shareholder), the Fund includes the statement required by Item 1(b)(1).

**Part B – INFORMATION REQUIRED IN A STATEMENT OF ADDITIONAL INFORMATION**

**Item 14. Cover Page and Table of Contents**

(a) *Front Cover Page*. Include the following information on the outside front cover page of the SAI:

(1) The Fund's name and the Class or Classes, if any, to which the SAI relates. If the Fund is a Series, also provide the Registrant's name.

(2) The exchange ticker symbol of the Fund's securities or, if the SAI relates to one or more Classes of the Fund's securities, adjacent to each such class, the exchange ticker symbol of such Class of the Fund's securities. If the Fund is an Exchange-Traded Fund, also identify the principal U.S. market or markets on which the Fund shares are traded.

(3) A statement or statements:

(i) That the SAI is not a prospectus;

(ii) How the prospectus may be obtained; and

(iii) Whether and from where information is incorporated by reference into the SAI, as permitted by General Instruction D.

**Instruction**. Any information incorporated by reference into the SAI must be delivered with the SAI unless the information has been previously delivered in a shareholder report (*e.g.*, to a current shareholder), and the Fund states that the shareholder report is

available, without charge, upon request. Provide a toll-free telephone number to call to request the report.

(4) The date of the SAI and of the prospectus to which the SAI relates.

(b) *Table of Contents*. Include under appropriate captions (and subcaptions) a list of the contents of the SAI and, when useful, provide cross-references to related disclosure in the prospectus.

**Item 15. Fund History**

(a) Provide the date and form of organization of the Fund and the name of the state or other jurisdiction in which the Fund is organized.

(b) If the Fund has engaged in a business other than that of an investment company during the past 5 years, state the nature of the other business and give the approximate date on which the Fund commenced business as an investment company. If the Fund's name was changed during that period, state its former name and the approximate date on which it was changed. Briefly describe the nature and results of any change in the Fund's business or name

that occurred in connection with any bankruptcy, receivership, or similar proceeding, or any other material reorganization, readjustment or succession.

**Item 16. Description of the Fund and Its Investments and Risks**

(a) *Classification*. State that the Fund is an open-end, management investment company and indicate, if applicable, that the Fund is diversified.

(b) *Investment Strategies and Risks*. Describe any investment strategies, including a strategy to invest in a particular type of security, used by an investment adviser of the Fund in managing the Fund that are not principal strategies and the risks of those strategies.

(c) *Fund Policies*.

(1) Describe the Fund's policy with respect to each of the following:

(i) Issuing senior securities;

(ii) Borrowing money, including the purpose for which the proceeds will be used;

(iii) Underwriting securities of other issuers;

(iv) Concentrating investments in a particular industry or group of industries;

(v) Purchasing or selling real estate or commodities;

(vi) Making loans; and

(vii) Any other policy that the Fund deems fundamental or that may not be changed without shareholder approval, including, if applicable, the Fund's investment objectives.

**Instruction**. If the Fund reserves freedom of action with respect to any practice specified in paragraph (c)(1), state the maximum percentage of assets to be devoted to the practice and disclose the risks of the practice.

(2) State whether shareholder approval is necessary to change any policy specified in paragraph (c)(1). If so, describe the vote required to obtain this approval.

(d) *Temporary Defensive Position*. Disclose, if applicable, the types of investments that a Fund may make while assuming a temporary defensive position described in response to Item 9(b).

(e) *Portfolio Turnover*. Explain any significant variation in the Fund's portfolio turnover rates over the two most recently completed fiscal years or any anticipated variation in the portfolio turnover rate from that reported for the last fiscal year in response to Item 13.

**Instruction**

This paragraph does not apply to a Money Market Fund.

(f) *Disclosure of Portfolio Holdings*

(1) Describe the Fund's policies and procedures with respect to the disclosure of the Fund's portfolio securities to any person, including:

(i) How the policies and procedures apply to disclosure to different categories of persons, including individual investors, institutional investors, intermediaries that distribute the Fund's shares, third- party service providers, rating and ranking organizations, and affiliated persons of the Fund;

(ii) Any conditions or restrictions placed on the use of information about portfolio securities that is disclosed, including any requirement that the information be kept confidential or prohibitions on trading based on the information, and any procedures to monitor the use of this information;

(iii) The frequency with which information about portfolio securities is disclosed, and the length of the lag, if any, between the date of the information and the date on which the information is disclosed;

(iv) Any policies and procedures with respect to the receipt of compensation or other consideration by the Fund, its investment adviser, or any other party in connection with the disclosure of information about portfolio securities;

(v) The individuals or categories of individuals who may authorize disclosure of the Fund's portfolio securities (*e.g.*, executive officers of the Fund);

(vi) The procedures that the Fund uses to ensure that disclosure of information about portfolio securities is in the best interests of Fund shareholders, including procedures to address conflicts between the interests of Fund shareholders, on the one hand, and those of the Fund's investment adviser; principal underwriter; or any affiliated person of the Fund, its investment adviser, or its principal underwriter, on the other; and

(vii) The manner in which the board of directors exercises oversight of disclosure of the Fund's portfolio securities.

**Instruction**. Include any policies and procedures of the Fund's investment adviser, or any other third party, that the Fund uses, or that are used on the Fund's behalf, with respect to the disclosure of the Fund's portfolio securities to any person.

(2) Describe any ongoing arrangements to make available information about the Fund's portfolio securities to any person, including the identity of the persons who receive information pursuant to such arrangements. Describe any compensation or other consideration

received by the Fund, its investment adviser, or any other party in connection with each such arrangement, and provide the information described by paragraphs (f)(1)(ii), (iii), and (v) of this Item with respect to such arrangements.

**Instructions**

1. The consideration required to be disclosed by Item 16(f)(2) includes any agreement to maintain assets in the Fund or in other investment companies or accounts managed by the investment adviser or by any affiliated person of the investment adviser.

2. The Fund is not required to describe an ongoing arrangement to make available information about the Fund's portfolio securities pursuant to this Item, if, not later than the time that the Fund makes the portfolio securities information available to any person pursuant to the arrangement, the Fund discloses the information in a publicly available filing with the Commission that is required to include the information.

3. The Fund is not required to describe an ongoing arrangement to make available information about the Fund's portfolio securities pursuant to this Item if:

(a) the Fund makes the portfolio securities information available to any person pursuant to the arrangement no earlier than the day next following the day on which the Fund makes the information available on its website in the manner specified in its prospectus pursuant to paragraph (b); and

(b) the Fund has disclosed in its current prospectus that the portfolio securities information will be available on its website, including (1) the nature of the information that will be available, including both the date as of which the information will be current (*e.g.*, month-end) and the scope of the information (*e.g.*, complete portfolio holdings, Fund's largest 20 holdings); (2) the date when the information will first become available and the period for which the information will remain available, which shall end no earlier than the date on which the Fund files its Form N-CSR or Form N-PORT for the last month of the Fund's first or third fiscal quarters with the Commission for the period that includes the date as of which the website information is current; and (3) the location on the Fund's website where either the information or a prominent hyper link (or series of prominent hyperlinks) to the information will be available.

(g) *Money Market Fund Material Events*. If the Fund is a Money Market Fund (except any Money Market Fund that is not subject to the requirements of §§ 270.2a-7(c)(2)(i) and/or (ii) of this chapter pursuant to § 270.2a-7(c)(2)(iii) of this chapter, and has not chosen

to rely on the ability to impose liquidity fees and suspend redemptions consistent with the requirements of §§ 270.2a-7(c)(2)(i) and/or (ii)) disclose, as applicable, the following events:

(1) *Imposition of Liquidity Fees and Temporary Suspensions of Fund Redemptions*.

(i) During the last 10 years, any occasion on which the Fund has invested less than ten percent of its total assets in weekly liquid assets (as provided in § 270.2a-7(c)(2)(ii)), and with respect to each such occasion, whether the Fund's board of directors determined to impose a liquidity fee pursuant to § 270.2a-7(c)(2)(ii) and/or temporarily suspend the Fund's redemptions pursuant to § 270.2a-7(c)(2)(i).

(ii) During the last 10 years, any occasion on which the Fund has invested less than thirty percent, but more than ten percent, of its total assets in weekly liquid assets (as provided in § 270.2a-7(c)(2)(i)) and the Fund's board of directors has determined to impose a liquidity fee pursuant to § 270.2a-7(c)(2)(i) and/or temporarily suspend the Fund's redemptions pursuant to § 270.2a-7(c)(2)(i).

**Instructions**

1. With respect to each such occasion, disclose: the dates and length of time for which the Fund invested less than ten percent (or thirty percent, as applicable) of its total assets in weekly liquid assets; the dates and length of time for which the Fund's board of directors determined to impose a liquidity fee pursuant to § 270.2a-7(c)(2)(i) or § 270.2a-7(c)(2)(ii), and/or temporarily suspend the Fund's redemptions pursuant to § 270.2a-7(c)(2)(i); and the size of any liquidity fee imposed pursuant to § 270.2a-7(c)(2)(i) or § 270.2a–7(c)(2)(ii).

2. The disclosure required by Item 16(g)(1) should incorporate, as appropriate, any information that the Fund is required to report to the Commission on Items E.1, E.2, E.3, E.4, F.1, F.2, and G.1 of Form N-CR [17 CFR 274.222].

3. The disclosure required by Item 16(g)(1) should conclude with the following statement: "The Fund was required to disclose additional information about this event [or "these events," as appropriate] on Form N-CR and to file this form with the Securities and Exchange Commission. Any Form N-CR filing submitted by the Fund is available on the EDGAR Database on the Securities and Exchange Commission's website at http://www.sec.gov."

(2) *Financial Support Provided to Money Market Funds*. During the last 10 years, any occasion on which an affiliated person, promoter, or principal underwriter of the Fund, or an affiliated person of such a person, provided any form of financial support to the Fund, including a description of the nature of support, person providing support, brief description of the relationship between the person providing support and the Fund, date support provided,

amount of support, security supported (if applicable), and the value of security supported on date support was initiated (if applicable).

**Instructions**

1. The term "financial support" includes any capital contribution, purchase of a security from the Fund in reliance on § 270.17a-9, purchase of any defaulted or devalued security at par, execution of letter of credit or letter of indemnity, capital support agreement (whether or not the Fund ultimately received support), performance guarantee, or any other similar action reasonably intended to increase or stabilize the value or liquidity of the Fund's portfolio; excluding, however, any routine waiver of fees or reimbursement of Fund expenses, routine inter-fund lending, routine inter-fund purchases of Fund shares, or any action that would qualify as financial support as defined above, that the board of directors has otherwise determined not to be reasonably intended to increase or stabilize the value or liquidity of the Fund's portfolio.

2. If during the last 10 years, the Fund has participated in one or more mergers with another investment company (a "merging investment company"), provide the information required by Item 16(g)(2) with respect to any merging investment company as well as with respect to the Fund; for purposes of this Instruction, the term "merger" means a merger, consolidation, or purchase or sale of substantially all of the assets between the Fund and a merging investment company. If the person or entity that previously provided financial support to a merging investment company is not currently an affiliated person, promoter, or principal underwriter of the Fund, the Fund need not provide the information required by Item 16(g)(2) with respect to that merging investment company.

3. The disclosure required by Item 16(g)(2) should incorporate, as appropriate, any information that the Fund is required to report to the Commission on Items C.1, C.2, C.3, C.4, C.5, C.6, and C.7 of Form N-CR [17 CFR 274.222].

4. The disclosure required by Item 16(g)(2) should conclude with the following statement: "The Fund was required to disclose additional information about this event [or "these events," as appropriate] on Form N-CR and to file this form with the Securities and Exchange Commission. Any Form N-CR filing submitted by the Fund is available on the

EDGAR Database on the Securities and Exchange Commission's website at http://www.sec.gov."

**Item 17. Management of the Fund**

**Instructions**

1. For purposes of this Item 17, the terms below have the following meanings:

(a) The term "family of investment companies" means any two or more registered investment companies that:

(1) Share the same investment adviser or principal underwriter; and

(2) Hold themselves out to investors as related companies for purposes of investment and investor services.

(b) The term "fund complex" means two or more registered investment companies that:

(1) Hold themselves out to investors as related companies for purposes of investment and investor services; or

(2) Have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other registered investment companies.

(c) The term "immediate family member" means a person's spouse; child residing in the person's household (including step and adoptive children); and any dependent of the person, as defined in section 152 of the Internal Revenue Code [26 U.S.C. 152].

(d) The term "officer" means the president, vice-president, secretary, treasurer, controller, or any other officer who performs policy-making functions.

2. When providing information about directors, furnish information for directors who are interested persons of the Fund separately from the information for directors who are not interested persons of the Fund. For example, when furnishing information in a table, you should provide separate tables (or separate sections of a single table) for directors who are interested persons and for directors who are not interested persons. When furnishing

information in narrative form, indicate by heading or otherwise the directors who are interested persons and the directors who are not interested persons.

(a) *Management Information*.

(1) Provide the information required by the following table for each director and officer of the Fund, and, if the Fund has an advisory board, member of the board. Explain in a footnote to the table any family relationship between the persons listed.

| (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|
| Name, Address, and Age (or Year of Birth) | Position(s) Held with Fund | Term of Office and Length of Time Served (or Year Service Began) | Principal Occupation(s) During Past 5 Years | Number of Portfolios in Fund Complex Overseen by Director | Other Directorships Held by Director |

**Instructions**

1. For purposes of this paragraph, the term "family relationship" means any relationship by blood, marriage, or adoption, not more remote than first cousin.

2. For each director who is an interested person of the Fund, describe, in a footnote or otherwise, the relationship, events, or transactions by reason of which the director is an interested person.

3. State the principal business of any company listed under column (4) unless the principal business is implicit in its name.

4. Indicate in column (6) directorships not included in column (5) that are held by a director in any company with a class of securities registered pursuant to section 12 of the Securities Exchange Act [15 U.S.C. 78l] or subject to the requirements of section 15(d) of the Securities Exchange Act [15 U.S.C. 78o(d)] or any company registered as an investment company under the Investment Company Act, and name the companies in which the directorships are held. Where the other directorships include directorships overseeing two or more portfolios in the same fund complex, identify the fund complex and provide the number of portfolios overseen as a director in the fund complex rather than listing each portfolio separately.

(2) For each individual listed in column (1) of the table required by paragraph (a)(1) of this Item 17, except for any director who is not an interested person of the Fund,

describe any positions, including as an officer, employee, director, or general partner, held with affiliated persons or principal underwriters of the Fund.

**Instruction**

When an individual holds the same position(s) with two or more registered investment companies that are part of the same fund complex, identify the fund complex and provide the number of registered investment companies for which the position(s) are held rather than listing each registered investment company separately.

(3) Describe briefly any arrangement or understanding between any director or officer and any other person(s) (naming the person(s)) pursuant to which he was selected as a director or officer.

**Instruction**

Do not include arrangements or understandings with directors or officers acting solely in their capacities as such.

(b) *Leadership Structure and Board of Directors*.

(1) Briefly describe the leadership structure of the Fund's board, including the responsibilities of the board of directors with respect to the Fund's management and whether the chairman of the board is an interested person of the Fund. If the chairman of the board is an interested person of the Fund, disclose whether the Fund has a lead independent director and what specific role the lead independent director plays in the leadership of the Fund. This disclosure should indicate why the Fund has determined that its leadership structure is appropriate given the specific characteristics or circumstances of the Fund. In addition, disclose the extent of the board's role in the risk oversight of the Fund, such as how the board

administers its oversight function and the effect that this has on the board's leadership structure.

(2) Identify the standing committees of the Fund's board of directors, and provide the following information about each committee:

(i) A concise statement of the functions of the committee;

(ii) The members of the committee;

(iii) The number of committee meetings held during the last fiscal year; and

(iv) If the committee is a nominating or similar committee, state whether the committee will consider nominees recommended by security holders and, if so, describe the procedures to be followed by security holders in submitting recommendations.

(3) Positions Held by Directors and Their Immediate Family Members

(i) Unless disclosed in the table required by paragraph (a)(1) of this Item 17, describe any positions, including as an officer, employee, director, or general partner, held by any director who is not an interested person of the Fund, or immediate family member of the director, during the two most recently completed calendar years with:

(A) The Fund;

(B) An investment company, or a person that would be an investment company but for the exclusions provided by sections 3(c)(1) and 3(c)(7) [15 U.S.C. 80a-3(c)(1) and (c)(7)], having the same investment adviser or principal underwriter as the Fund or having an investment adviser or principal underwriter that directly or indirectly controls, is controlled by, or is under common control with an investment adviser or principal underwriter of the Fund;

(C) An investment adviser, principal underwriter, or affiliated person of the Fund; or

(D) Any person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Fund.

(ii) Unless disclosed in the table required by paragraph (a)(1) of this Item 17 or in response to paragraph (b)(3) of this Item 17, indicate any directorships held during the past five years by each director in any company with a class of securities registered pursuant to section 12 of the Securities Exchange Act [15 U.S.C. 78l] or subject to the requirements of section 15(d) of the Securities Exchange Act [15 U.S.C. 78o(d)] or any company registered as

an investment company under the Investment Company Act, and name the companies in which the directorships were held.

**Instruction**. When an individual holds the same position(s) with two or more portfolios that are part of the same fund complex, identify the fund complex and provide the

number of portfolios for which the position(s) are held rather than listing each portfolio separately.

(4) For each director, state the dollar range of equity securities beneficially owned by the director as required by the following table:

(i) In the Fund; and

(ii) On an aggregate basis, in any registered investment companies overseen by the director within the same family of investment companies as the Fund.

| (1) | (2) | (3) |
|---|---|---|
| Name of Director | Dollar Range of Equity Securities in the Fund | Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Director in Family of Investment Companies |

**Instructions**

1. Information should be provided as of the end of the most recently completed calendar year. Specify the valuation date by footnote or otherwise.

2. Determine "beneficial ownership" in accordance with rule 16a-1(a)(2) under the Exchange Act [17 CFR 240.16a-1(a)(2)].

3. If the SAI covers more than one Fund or Series, disclose in column (2) the dollar range of equity securities beneficially owned by a director in each Fund or Series overseen by the director.

4. In disclosing the dollar range of equity securities beneficially owned by a director in columns (2) and (3), use the following ranges: none, $1–$10,000, $10,001–$50,000, $50,001–$100,000, or over $100,000.

(5) For each director who is not an interested person of the Fund, and his immediate family members, furnish the information required by the following table as to each class of securities owned beneficially or of record in:

(i) An investment adviser or principal underwriter of the Fund; or

(ii) A person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Fund:

| (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|
| Name, of Director | Name of Owners and Relationships to Director | Company | Title of Class | Value of Securities | Percent of Class |

**Instructions**

1. Information should be provided as of the end of the most recently completed calendar year. Specify the valuation date by footnote or otherwise.

2. An individual is a "beneficial owner" of a security if he is a "beneficial owner" under either rule 13d-3 or rule 16a-1(a)(2) under the Exchange Act [17 CFR 240.13d-3 or 240.16a-1(a)(2)].

3. Identify the company in which the director or immediate family member of the director owns securities in column (3). When the company is a person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter, describe the company's relationship with the investment adviser or principal underwriter.

4. Provide the information required by columns (5) and (6) on an aggregate basis for each director and his immediate family members.

(6) Unless disclosed in response to paragraph (b)(5) of this Item 17, describe any direct or indirect interest, the value of which exceeds $120,000, of each director who is not

an interested person of the Fund, or immediate family member of the director, during the two most recently completed calendar years, in:

(i) An investment adviser or principal underwriter of the Fund; or

(ii) A person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Fund.

**Instructions**

1. A director or immediate family member has an interest in a company if he is a party to a contract, arrangement, or understanding with respect to any securities of, or interest in, the company.

2. The interest of the director and the interests of his immediate family members should be aggregated in determining whether the value exceeds $120,000.

(7) Describe briefly any material interest, direct or indirect, of any director who is not an interested person of the Fund, or immediate family member of the director, in any transaction, or series of similar transactions, during the two most recently completed calendar years, in which the amount involved exceeds $120,000 and to which any of the following persons was a party:

(i) The Fund;

(ii) An officer of the Fund;

(iii) An investment company, or a person that would be an investment company but for the exclusions provided by sections 3(c)(1) and 3(c)(7) [15 U.S.C. 80a-3(c)(1) and (c)(7)], having the same investment adviser or principal underwriter as the Fund or having an investment adviser or principal underwriter that directly or indirectly controls, is controlled by, or is under common control with an investment adviser or principal underwriter of the Fund;

(iv) An officer of an investment company, or a person that would be an investment company but for the exclusions provided by sections 3(c)(1) and 3(c)(7) [15 U.S.C. 80a-3(c)(1) and (c)(7)], having the same investment adviser or principal underwriter as the Fund or having an investment adviser or principal underwriter that directly or indirectly controls, is

controlled by, or is under common control with an investment adviser or principal underwriter of the Fund;

(v) An investment adviser or principal underwriter of the Fund;

(vi) An officer of an investment adviser or principal underwriter of the Fund;

(vii) A person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Fund; or

(viii) An officer of a person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Fund.

**Instructions**

1. Include the name of each director or immediate family member whose interest in any transaction or series of similar transactions is described and the nature of the circumstances by reason of which the interest is required to be described.

2. State the nature of the interest, the approximate dollar amount involved in the transaction, and, where practicable, the approximate dollar amount of the interest.

3. In computing the amount involved in the transaction or series of similar transactions, include all periodic payments in the case of any lease or other agreement providing for periodic payments.

4. Compute the amount of the interest of any director or immediate family member of the director without regard to the amount of profit or loss involved in the transaction(s).

5. As to any transaction involving the purchase or sale of assets, state the cost of the assets to the purchaser and, if acquired by the seller within two years prior to the transaction, the cost to the seller. Describe the method used in determining the purchase or sale price and the name of the person making the determination.

6. Disclose indirect, as well as direct, material interests in transactions. A person who has a position or relationship with, or interest in, a company that engages in a transaction with one of the persons listed in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17 may have an indirect interest in the transaction by reason of the position, relationship, or interest. The interest in the transaction, however, will not be deemed "material" within the meaning of paragraph (b)(7) of this Item 17 where the interest of the director or immediate family member arises solely from the holding of an equity interest (including a limited partnership interest, but excluding a general partnership interest) or a creditor interest in a company that is a party to the transaction with one of the persons

specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17, and the transaction is not material to the company.

7. The materiality of any interest is to be determined on the basis of the significance of the information to investors in light of all the circumstances of the particular case. The importance of the interest to the person having the interest, the relationship of the parties to the transaction with each other, and the amount involved in the transaction are among the factors to be considered in determining the significance of the information to investors.

8. No information need be given as to any transaction where the interest of the director or immediate family member arises solely from the ownership of securities of a person specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17 and the director or immediate family member receives no extra or special benefit not shared on a pro rata basis by all holders of the Class of securities.

9. Transactions include loans, lines of credit, and other indebtedness. For indebtedness, indicate the largest aggregate amount of indebtedness outstanding at any time during the period, the nature of the indebtedness and the transaction in which it was incurred, the amount outstanding as of the end of the most recently completed calendar year, and the rate of interest paid or charged.

10. No information need be given as to any routine, retail transaction. For example, the Fund need not disclose that a director has a credit card, bank or brokerage account, residential mortgage, or insurance policy with a person specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17 unless the director is accorded special treatment.

(8) Describe briefly any direct or indirect relationship, in which the amount involved exceeds $120,000, of any director who is not an interested person of the Fund, or immediate family member of the director, that existed at any time during the two most

recently completed calendar years with any of the persons specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17. Relationships include:

(i) Payments for property or services to or from any person specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17;

(ii) Provision of legal services to any person specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17;

(iii) Provision of investment banking services to any person specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17, other than as a participating underwriter in a syndicate; and

(iv) Any consulting or other relationship that is substantially similar in nature and scope to the relationships listed in paragraphs (b)(8)(i) through (b)(8)(iii) of this Item 17.

**Instructions**

1. Include the name of each director or immediate family member whose relationship is described and the nature of the circumstances by reason of which the relationship is required to be described.

2. State the nature of the relationship and the amount of business conducted between the director or immediate family member and the person specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17 as a result of the relationship during the two most recently completed calendar years.

3. In computing the amount involved in a relationship, include all periodic payments in the case of any agreement providing for periodic payments.

4. Disclose indirect, as well as direct, relationships. A person who has a position or relationship with, or interest in, a company that has a relationship with one of the persons listed in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17 may have an indirect relationship by reason of the position, relationship, or interest.

5. In determining whether the amount involved in a relationship exceeds $120,000, amounts involved in a relationship of the director should be aggregated with those of his immediate family members.

6. In the case of an indirect interest, identify the company with which a person specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17 has a relationship; the name of the director or immediate family member affiliated with the company and the nature of the affiliation; and the amount of business conducted between the company and the person

specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17 during the two most recently completed calendar years.

7. In calculating payments for property and services for purposes of paragraph (b)(8)(i) of this Item 17, the following may be excluded:

A. Payments where the transaction involves the rendering of services as a common contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority; or

B. Payments that arise solely from the ownership of securities of a person specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17 and no extra or special benefit not shared on a pro rata basis by all holders of the class of securities is received.

8. No information need be given as to any routine, retail relationship. For example, the Fund need not disclose that a director has a credit card, bank or brokerage account, residential mortgage, or insurance policy with a person specified in paragraphs (b)(7)(i) through (b)(7)(viii) of this Item 17 unless the director is accorded special treatment.

(9) If an officer of an investment adviser or principal underwriter of the Fund, or an officer of a person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Fund, served during the two most recently completed calendar years, on the board of directors of a company where a director of the Fund who is not an interested person of the Fund, or immediate family member of the director, was during the two most recently completed calendar years, an officer, identify:

(i) The company;

(ii) The individual who serves or has served as a director of the company and the period of service as director;

(iii) The investment adviser or principal underwriter or person controlling, controlled by, or under common control with the investment adviser or principal underwriter where the individual named in paragraph (b)(9)(ii) of this Item 17 holds or held office and the office held; and

(iv) The director of the Fund or immediate family member who is or was an officer of the company; the office held; and the period of holding the office.

(10) For each director, briefly discuss the specific experience, qualifications, attributes, or skills that led to the conclusion that the person should serve as a director for the Fund at the time that the disclosure is made, in light of the Fund's business and structure. If

material, this disclosure should cover more than the past five years, including information about the person's particular areas of expertise or other relevant qualifications.

(c) *Compensation*. For all directors of the Fund and for all members of any advisory board who receive compensation from the Fund, and for each of the three highest paid officers or any affiliated person of the Fund who received aggregate compensation from the Fund for the most recently completed fiscal year exceeding $60,000 ("Compensated Persons"):

(1) Provide the information required by the following table:

**COMPENSATION TABLE**

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| Name of Person, Position | Aggregate Compensation From Fund | Pension or Retirement Benefits Accrued As Part of Funds Expenses | Estimated Annual Benefits Upon Retirement | Total Compensation From Fund and Fund Complex Paid to Directors |

**Instructions**

1. For column (1), indicate, as necessary, the capacity in which the remuneration is received. For Compensated Persons who are directors of the Fund, compensation is amounts received for service as a director.

2. If the Registrant has not completed its first full year since its organization, furnish the information for the current fiscal year, estimating future payments that would be made pursuant to an existing agreement or understanding. Disclose in a footnote to the Compensation Table the period for which the information is furnished.

3. Include in column (2) amounts deferred at the election of the Compensated Person, whether pursuant to a plan established under Section 401(k) of the Internal Revenue Code [26 U.S.C. 401(k)] or otherwise for the fiscal year in which earned. Disclose in a footnote to the Compensation Table the total amount of deferred compensation (including interest) payable to or accrued for any Compensated Person.

4. Include in columns (3) and (4) all pension or retirement benefits proposed to be paid under any existing plan in the event of retirement at normal retirement date, directly or

indirectly, by the Registrant, any of its subsidiaries, or other companies in the Fund Complex. Omit column (4) where retirement benefits are not determinable.

5. For any defined benefit or actuarial plan under which benefits are determined primarily by final compensation (or average final compensation) and years of service, provide the information required in column (4) in a separate table showing estimated annual benefits payable upon retirement (including amounts attributable to any defined benefit supplementary or excess pension award plans) in specified compensation and years of service classifications. Also provide the estimated credited years of service for each Compensated Person.

6. Include in column (5) only aggregate compensation paid to a director for service on the board and all other boards of investment companies in a Fund Complex specifying the number of such other investment companies.

(2) Describe briefly the material provisions of any pension, retirement, or other plan or any arrangement, other than fee arrangements disclosed in paragraph (c)(1), under which the Compensated Persons are or may be compensated for services provided, including amounts paid, if any, to the compensated Person under these arrangements during the most recently completed fiscal year. Specifically include the criteria used to determine amounts payable under the plan, the length of service or vesting period required by the plan, the retirement age or other event that gives rise to payment under the plan, and whether the payment of benefits is secured or funded by the Fund.

(d) *Sales Loads*. Disclose any arrangements that result in breakpoints in, or elimination of, purchase charges or exit charges for directors and other affiliated persons of the Fund. Identify each class of individuals and transactions to which the arrangements apply and state each different breakpoint as a percentage of both the offering price and the net amount invested of the Fund's shares. Explain, as applicable, the reasons for the difference in the price at which securities are offered generally to the public, and the prices at which securities are offered to directors and other affiliated persons of the Fund.

(e) *Codes of Ethics*. Provide a brief statement disclosing whether the Fund and its investment adviser and principal underwriter have adopted codes of ethics under rule 17j-1 of the Investment Company Act [17 CFR 270.17j-1] and whether these codes of ethics permit personnel subject to the codes to invest in securities, including securities that may be purchased or held by the Fund.

**Instruction**: A Fund that is not required to adopt a code of ethics under rule 17j-1 of the Investment Company Act is not required to respond to this item

(f) *Proxy Voting Policies*. Unless the Fund invests exclusively in non-voting securities, describe the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, including the procedures that the Fund uses when a vote presents a conflict between the interests of Fund shareholders, on the one hand, and those of the Fund's investment adviser; principal underwriter; or any affiliated person of the Fund, its investment adviser, or its principal underwriter, on the other. Include any policies and

procedures of the Fund's investment adviser, or any other third party, that the Fund uses, or that are used on the Fund's behalf, to determine how to vote proxies relating to portfolio securities. Also, state that information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling a specified toll-free telephone number; or on or through the Fund's website at a specified address; or both; and (2) on the Commission's website at http://www.sec.gov.

**Instructions**

1. A Fund may satisfy the requirement to provide a description of the policies and procedures that it uses to determine how to vote proxies relating to portfolio securities by including a copy of the policies and procedures themselves.

2. If a Fund discloses that the Fund's proxy voting record is available by calling a toll-free telephone number, and the Fund (or financial intermediary through which shares of the Fund may be purchased or sold) receives a request for this information, the Fund (or financial intermediary) must send the information disclosed in the Fund's most recently filed report on Form N-PX, within three business days of receipt of the request, by first-class mail or other means designed to ensure equally prompt delivery.

3. If a Fund discloses that the Fund's proxy voting record is available on or through its website, the Fund must make available free of charge the information disclosed in the Fund's most recently filed report on Form N-PX on or through its website as soon as reasonably practicable after filing the report with the Commission. The information disclosed in the Fund's most recently filed report on Form N-PX must remain available on or through the Fund's website for as long as the Fund remains subject to the requirements of Rule 30b1-4 [17 CFR 270.30b1-4] and discloses that the Fund's proxy voting record is available on or through its website.

**Item 18. Control Persons and Principal Holders of Securities**

Provide the following information as of a specified date no more than 30 days prior to the date of filing the registration statement or an amendment.

(a) *Control Persons*. State the name and address of each person who controls the Fund and explain the effect of that control on the voting rights of other security holders. For each control person, state the percentage of the Fund's voting securities owned or any other basis of control. If the control person is a company, give the jurisdiction under the laws of which it is organized. List all parents of the control person.

**Instruction**. For purposes of this paragraph, "control" means (i) the beneficial ownership, either directly or through one or more controlled companies, of more than 25% of the voting securities of a company; (ii) the acknowledgment or assertion by either the

controlled or controlling party of the existence of control; or (iii) an adjudication under section 2(a)(9), which has become final, that control exists.

(b) *Principal Holders*. State the name, address, and percentage of ownership of each person who owns of record or is known by the Fund to own beneficially 5% or more of any Class of the Fund's outstanding equity securities.

**Instructions**

1. Calculate the percentages based on the amount of securities outstanding.

2. If securities are being registered under or in connection with a plan of acquisition, reorganization, readjustment or succession, indicate, as far as practicable, the ownership that would result from consummation of the plan based on present holdings and commitments.

3. Indicate whether the securities are owned of record, beneficially, or both. Show the respective percentage owned in each manner.

(c) *Management Ownership*. State the percentage of the Fund's equity securities owned by all officers, directors, and members of any advisory board of the Fund as a group. If

the amount owned by directors and officers as a group is less than 1% of the Class, provide a statement to that effect.

**Item 19. Investment Advisory and Other Services**

(a) *Investment Advisers*. Disclose the following information with respect to each investment adviser:

(1) The name of any person who controls the adviser, the basis of the person's control, and the general nature of the person's business. Also disclose, if material, the business history of any organization that controls the adviser.

(2) The name of any affiliated person of the Fund who also is an affiliated person of the adviser, and a list of all capacities in which the person is affiliated with the Fund and with the adviser.

**Instruction**. If an affiliated person of the Fund alone or together with others controls the adviser, state that fact. It is not necessary to provide the amount or percentage of the outstanding voting securities owned by the controlling person.

(3) The method of calculating the advisory fee payable by the Fund including:

(i) The total dollar amounts that the Fund paid to the adviser (aggregated with amounts paid to affiliated advisers, if any), and any advisers who are not affiliated persons of the adviser, under the investment advisory contract for the last three fiscal years;

(ii) If applicable, any credits that reduced the advisory fee for any of the last three fiscal years; and

(iii) Any expense limitation provision.

**Instructions**

1. If the advisory fee payable by the Fund varies depending on the Fund's investment performance in relation to a standard, describe the standard along with a fee schedule in tabular form. The Fund may include examples showing the fees that the adviser

would earn at various levels of performance as long as the examples include calculations showing the maximum and minimum fee percentages that could be earned under the contract.

2. State separately each type of credit or offset.

3. When a Fund is subject to more than one expense limitation provision, describe only the most restrictive provision.

4. For a Registrant with more than one Series, or a Multiple Class Fund, describe the methods of allocation and payment of advisory fees for each Series or Class.

(b) *Principal Underwriter*. State the name and principal business address of any principal underwriter for the Fund. Disclose, if applicable, that an affiliated person of the Fund is an affiliated person of the principal underwriter and identify the affiliated person.

(c) *Services Provided by Each Investment Adviser and Fund Expenses Paid by Third Parties*.

(1) Describe all services performed for or on behalf of the Fund supplied or paid for wholly or in substantial part by each investment adviser.

(2) Describe all fees, expenses, and costs of the Fund that are to be paid by persons other than an investment adviser or the Fund, and identify those persons.

(d) *Service Agreements*. Summarize the substantive provisions of any other management-related service contract that may be of interest to a purchaser of the Fund's shares, under which services are provided to the Fund, indicating the parties to the contract, and the total dollars paid and by whom for the past three years.

**Instructions**

1. The term "management-related service contract" includes any contract with the Fund to keep, prepare, or file accounts, books, records, or other documents required under

federal or state law, or to provide any similar services with respect to the daily administration of the Fund, but does not include the following:

(a) Any contract with the Fund to provide investment advice;

(b) Any agreement with the Fund to perform as custodian, transfer agent, or dividend-paying agent for the Fund; and

(c) Any contract with the Fund for outside legal or auditing services, or contract for personal employment entered into with the Fund in the ordinary course of business.

2. No information need be given in response to this paragraph with respect to the service of mailing proxies or periodic reports to the Fund's shareholders.

3. In summarizing the substantive provisions of any management-related service contract, include the following:

(a) The name of the person providing the service;

(b) The direct or indirect relationships, if any, of the person with the Fund, an investment adviser of the Fund or the Fund's principal underwriter; and

(c) The nature of the services provided, and the basis of the compensation paid for the services for the last three fiscal years.

(e) *Other Investment Advice*. If any person (other than a director, officer, member of an advisory board, employee, or investment adviser of the Fund), through any understanding, whether formal or informal, regularly advises the Fund or the Fund's investment adviser with respect to the Fund's investing in, purchasing, or selling securities or other property, or has the authority to determine what securities or other property should be purchased or sold by the Fund, and receives direct or indirect remuneration, provide the following information:

(1) The person's name;

(2) A description of the nature of the arrangement, and the advice or information provided; and

(3) Any remuneration (including, for example, participation, directly or indirectly, in commissions or other compensation paid in connection with transactions in the Fund's

portfolio securities) paid for the advice or information, and a statement as to how the remuneration was paid and by whom it was paid for the last three fiscal years.

**Instruction**. Do not include information for the following:

1. Persons who advised the investment adviser or the Fund solely through uniform publications distributed to subscribers;

2. Persons who provided the investment adviser or the Fund with only statistical and other factual information, advice about economic factors and trends, or advice as to

occasional transactions in specific securities, but without generally advising about the purchase or sale of securities by the Fund;

3. A company that is excluded from the definition of "investment adviser" of an investment company under section 2(a)(20) (iii) [15 U.S.C. 80a-2(a)(20)(iii)];

4. Any person the character and amount of whose compensation for these services must be approved by a court; or

5. Other persons as the Commission has by rule or order determined not to be an "investment adviser" of an investment company.

(f) *Dealer Reallowances*. Disclose any purchase charge reallowed to dealers as a percentage of the offering price of the Fund's shares.

(g) *Rule 12b-1 Plans*. If the Fund has adopted a plan under rule 12b-1, describe the material aspects of the plan, and any agreements relating to the implementation of the plan, including:

(1) A list of the principal types of activities for which payments are or will be made, including the dollar amount and the manner in which amounts paid by the Fund under the plan during the last fiscal year were spent on:

(i) Advertising;

(ii) Printing and mailing of prospectuses to other than current shareholders;

(iii) Compensation to underwriters;

(iv) Compensation to broker-dealers;

(v) Compensation to sales personnel;

(vi) Interest, carrying, or other financing charges; and

(vii) Other (specify).

(2) The relationship between amounts paid to the distributor and the expenses that it incurs (e.g., whether the plan reimburses the distributor only for expenses incurred or compensates the distributor regardless of its expenses).

(3) The amount of any unreimbursed expenses incurred under the plan in a previous year and carried over to future years, in dollars and as a percentage of the Fund's net assets on the last day of the previous year.

(4) Whether the Fund participates in any joint distribution activities with another Series or investment company. If so, disclose, if applicable, that fees paid under the Fund's rule 12b-1 plan may be used to finance the distribution of the shares of another Series or investment company, and state the method of allocating distribution costs (*e.g.*, relative net asset size, number of shareholder accounts).

(5) Whether any of the following persons had a direct or indirect financial interest in the operation of the plan or related agreements:

(i) Any interested person of the Fund; or

(ii) Any director of the Fund who is not an interested person of the Fund.

(6) The anticipated benefits to the Fund that may result from the plan.

(h) *Other Service Providers*.

(1) Unless disclosed in response to paragraph (d), identify any person who provides significant administrative or business affairs management services for the Fund (*e.g.*, an "administrator"), describe the services provided, and the compensation paid for the services.

(2) State the name and principal business address of the Fund's transfer agent and the dividend- paying agent.

(3) State the name and principal business address of the Fund's custodian and independent public accountant and describe generally the services performed by each. If the Fund's portfolio securities are held by a person other than a commercial bank, trust company, or depository registered with the Commission as custodian, state the nature of the business of that person or persons.

(4) If an affiliated person of the Fund, or an affiliated person of the affiliated person, acts as custodian, transfer agent, or dividend-paying agent for the Fund, describe the services that the person performs and the basis for remuneration.

(i) *Securities Lending*.

(1) Provide the following dollar amounts of income and fees/compensation related to the securities lending activities of each Series during its most recent fiscal year:

(i) Gross income from securities lending activities, including income from cash collateral reinvestment;

(ii) All fees and/or compensation for each of the following securities lending activities and related services: Any share of revenue generated by the securities lending program paid to the securities lending agent(s) ("revenue split"); fees paid for cash collateral

management services (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split; administrative fees that are not included in the revenue split; fees for indemnification that are not included in the revenue split; rebates paid to borrowers; and any other fees relating to the securities lending program that are not included in the revenue split, including a description of those other fees;

(iii) The aggregate fees/compensation disclosed pursuant to paragraph (ii); and

(iv) Net income from securities lending activities (i.e., the dollar amount in paragraph (i) minus the dollar amount in paragraph (iii)).

**Instruction**. If a fee for a service is included in the revenue split, state that the fee is "included in the revenue split."

(2) Describe the services provided to the Series by the securities lending agent in the Series' most recent fiscal year.

**Item 20. Portfolio Managers**

(a) *Other Accounts Managed*. If a Portfolio Manager required to be identified in response to Item 5(b) is primarily responsible for the day-to-day management of the portfolio of any other account, provide the following information:

(1) The Portfolio Manager's name;

(2) The number of other accounts managed within each of the following categories and the total assets in the accounts managed within each category:

(A) Registered investment companies;

(B) Other pooled investment vehicles; and

(C) Other accounts.

(3) For each of the categories in paragraph (a)(2) of this Item, the number of accounts and the total assets in the accounts with respect to which the advisory fee is based on the performance of the account; and

(4) A description of any material conflicts of interest that may arise in connection with the Portfolio Manager's management of the Fund's investments, on the one hand, and the investments of the other accounts included in response to paragraph (a)(2) of this Item, on the other. This description would include, for example, material conflicts between the investment strategy of the Fund and the investment strategy of other accounts managed by the Portfolio

Manager and material conflicts in allocation of investment opportunities between the Fund and other accounts managed by the Portfolio Manager.

**Instructions**

1. Provide the information required by this paragraph as of the end of the Fund's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Fund's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager must be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. If a committee, team, or other group of persons that includes the Portfolio Manager is jointly and primarily responsible for the day-to-day management of the portfolio of an account, include the account in responding to paragraph (a) of this Item.

(b) *Compensation*. Describe the structure of, and the method used to determine, the compensation of each Portfolio Manager required to be identified in response to Item 5(b). For each type of compensation (*e.g.*, salary, bonus, deferred compensation, retirement plans and arrangements), describe with specificity the criteria on which that type of compensation is based, for example, whether compensation is fixed, whether (and, if so, how) compensation is based on Fund pre- or after-tax performance over a certain time period, and whether (and, if so, how) compensation is based on the value of assets held in the Fund's portfolio. For example, if compensation is based solely or in part on performance, identify any benchmark used to measure performance and state the length of the period over which performance is measured.

**Instructions**

1. Provide the information required by this paragraph as of the end of the Fund's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Fund's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager must be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. Compensation includes, without limitation, salary, bonus, deferred compensation, and pension and retirement plans and arrangements, whether the compensation is cash or non-cash. Group life, health, hospitalization, medical reimbursement, relocation, and pension and retirement plans and arrangements may be omitted, provided that they do not discriminate in scope, terms, or operation in favor of the Portfolio Manager or a group of employees that includes the Portfolio Manager and are available generally to all salaried employees. The value of compensation is not required to be disclosed under this Item.

3. Include a description of the structure of, and the method used to determine, any compensation received by the Portfolio Manager from the Fund, the Fund's investment adviser, or any other source with respect to management of the Fund and any other accounts included in the response to paragraph (a)(2) of this Item. This description must clearly

disclose any differences between the method used to determine the Portfolio Manager's compensation with respect to the Fund and other accounts, *e.g.*, if the Portfolio Manager receives part of an advisory fee that is based on performance with respect to some accounts but not the Fund, this must be disclosed.

(c) *Ownership of Securities*. For each Portfolio Manager required to be identified in response to Item 5(b), state the dollar range of equity securities in the Fund beneficially owned by the Portfolio Manager using the following ranges: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001-$500,000, $500,001-$1,000,000, or over $1,000,000.

**Instructions**

1. Provide the information required by this paragraph as of the end of the Fund's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Fund's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager must be provided as of the most recent practicable date. Specify the valuation date.

2. Determine "beneficial ownership" in accordance with rule 16a-1(a)(2) under the Exchange Act [17 CFR 240.16a-1(a)(2)].

**Item 21. Brokerage Allocation and Other Practices**

(a) *Brokerage Transactions*. Describe how transactions in portfolio securities are affected, including a general statement about brokerage commissions, markups, and markdowns on principal transactions and the aggregate amount of any brokerage commissions paid by the Fund during its three most recent fiscal years. If, during either of the two years preceding the Fund's most recent fiscal year, the aggregate dollar amount of

brokerage commissions paid by the Fund differed materially from the amount paid during the most recent fiscal year, state the reason(s) for the difference(s).

(b) *Commissions*.

(1) Identify, disclose the relationship, and state the aggregate dollar amount of brokerage commissions paid by the Fund during its three most recent fiscal years to any broker:

(i) That is an affiliated person of the Fund or an affiliated person of that person; or

(ii) An affiliated person of which is an affiliated person of the Fund, its investment adviser, or principal underwriter.

(2) For each broker identified in response to paragraph (b)(1), state:

(i) The percentage of the Fund's aggregate brokerage commissions paid to the broker during the most recent fiscal year; and

(ii) The percentage of the Fund's aggregate dollar amount of transactions involving the payment of commissions effected through the broker during the most recent fiscal year.

(3) State the reasons for any material difference in the percentage of brokerage commissions paid to, and the percentage of transactions effected through, a broker disclosed in response to paragraph (b)(1).

(c) *Brokerage Selection*. Describe how the Fund will select brokers to effect securities transactions for the Fund and how the Fund will evaluate the overall reasonableness of brokerage commissions paid, including the factors that the Fund will consider in making these determinations.

**Instructions**

1. If the Fund will consider the receipt of products or services other than brokerage or research services in selecting brokers, specify those products and services.

2. If the Fund will consider the receipt of research services in selecting brokers, identify the nature of those research services.

3. State whether persons acting on the Fund's behalf are authorized to pay a broker a higher brokerage commission than another broker might have charged for the same

transaction in recognition of the value of (a) brokerage or (b) research services provided by the broker.

4. If applicable, explain that research services provided by brokers through which the Fund effects securities transactions may be used by the Fund's investment adviser in servicing all of its accounts and that not all of these services may be used by the adviser in connection with the Fund. If other policies or practices are applicable to the Fund with respect to the allocation of research services provided by brokers, explain those policies and practices.

(d) *Directed Brokerage*. If, during the last fiscal year, the Fund or its investment adviser, through an agreement or understanding with a broker, or otherwise through an internal allocation procedure, directed the Fund's brokerage transactions to a broker because of research services provided, state the amount of the transactions and related commissions.

(e) *Regular Broker-Dealers*. If the Fund has acquired during its most recent fiscal year or during the period of time since organization, whichever is shorter, securities of its regular brokers or dealers as defined in rule 10b-1 [17 CFR 270.10b-1] or of their parents,

identify those brokers or dealers and state the value of the Fund's aggregate holdings of the securities of each issuer as of the close of the Fund's most recent fiscal year.

**Instruction**. The Fund need only disclose information about an issuer that derived more than 15% of its gross revenues from the business of a broker, a dealer, an underwriter, or an investment adviser during its most recent fiscal year.

**Item 22. Capital Stock and Other Securities**

(a) *Capital Stock*. For each Class of capital stock of the Fund, provide:

(1) The title of each Class; and

(2) A full discussion of the following provisions or characteristics of each Class, if applicable:

(i) Restrictions on the right freely to retain or dispose of the Fund's shares;

(ii) Material obligations or potential liabilities associated with owning the Fund's shares (not including investment risks);

(iii) Dividend rights;

(iv) Voting rights (including whether the rights of shareholders can be modified by other than a majority vote);

(v) Liquidation rights;

(vi) Preemptive rights;

(vii) Conversion rights;

(viii) Redemption provisions;

(ix) Sinking fund provisions; and

(x) Liability to further calls or to assessment by the Fund.

**Instructions**

1. If any Class described in response to this paragraph possesses cumulative voting rights, disclose the existence of those rights and explain the operation of cumulative voting.

2. If the rights evidenced by any Class described in response to this paragraph are materially limited or qualified by the rights of any other Class, explain those limitations or qualifications.

(b) *Other Securities*. Describe the rights of any authorized securities of the Fund other than capital stock. If the securities are subscription warrants or rights, state the title and amount of securities called for, and the period during which and the prices at which the warrants or rights are exercisable.

**Item 23. Purchase, Redemption, and Pricing of Shares**

(a) *Purchase of Shares*. To the extent that the prospectus does not do so, describe how the Fund's shares are offered to the public. Include any special purchase plans or methods not described in the prospectus or elsewhere in the SAI, including letters of intent, accumulation plans, dividend reinvestment plans, withdrawal plans, exchange privileges, employee benefit plans, redemption reinvestment plans, and waivers for particular classes of shareholders.

(b) *Fund Reorganizations*. Disclose any arrangements that result in breakpoints in, or elimination of, purchase charges or exit charges in connection with the terms of a merger, acquisition, or exchange offer made under a plan of reorganization. Identify each class of individuals to which the arrangements apply and state each different purchase charge or exit charge available as a percentage of both the offering price and the net amount invested.

(c) *Offering Price*. Describe the method followed or to be followed by the Fund in determining the total offering price at which its shares may be offered to the public and the method(s) used to value the Fund's assets.

**Instructions**

1. Describe the valuation procedure(s) that the Fund uses in determining the net asset value and public offering price of its shares.

2. Explain how the excess of the offering price over the net amount invested is distributed among the Fund's principal underwriters or others and the basis for determining the total offering price.

3. Explain the reasons for any difference in the price at which securities are offered generally to the public, and the prices at which securities are offered for any class of transactions or to any class of individuals.

4. Unless provided as a continuation of the balance sheet in response to Item 27, include a specimen price-make-up sheet showing how the Fund calculates the total offering

price per unit. Base the calculation on the value of the Fund's portfolio securities and other assets and its outstanding securities as of the date of the balance sheet filed by the Fund.

(d) *Redemption in Kind*. If the Fund has received an order of exemption from section 18(f) or has filed a notice of election under rule 18f-1 that has not been withdrawn, describe the nature, extent, and effect of the exemptive relief or notice.

(e) *Arrangements Permitting Frequent Purchases and Redemptions of Fund Shares*. Describe any arrangements with any person to permit frequent purchases and redemptions of Fund shares, including the identity of the persons permitted to engage in frequent purchases and redemptions pursuant to such arrangements, and any compensation or other consideration received by the Fund, its investment adviser, or any other party pursuant to such arrangements.

**Instructions**

1. The consideration required to be disclosed by Item 23(e) includes any agreement to maintain assets in the Fund or in other investment companies or accounts managed by the investment adviser or by any affiliated person of the investment adviser.

2. If the Fund has an arrangement to permit frequent purchases and redemptions by a group of individuals, such as the participants in a defined contribution plan that meets the requirements for qualification under Section 401(k) of the Internal Revenue Code [26 U.S.C.

401(k)], the Fund may identify the group rather than identifying each individual group member.

**Item 24. Taxation of the Fund**

(a) If applicable, state that the Fund is qualified or intends to qualify under Subchapter M of the Internal Revenue Code. Disclose the consequences to the Fund if it does not qualify under Subchapter M.

(b) Disclose any special or unusual tax aspects of the Fund, such as taxation resulting from foreign investment or from status as a personal holding company, or any tax loss carry-forward to which the Fund may be entitled.

**Item 25. Underwriters**

(a) *Distribution of Securities*. For each principal underwriter distributing securities of the Fund, state:

(1) The nature of the obligation to distribute the Fund's securities;

(2) Whether the offering is continuous; and

(3) The aggregate dollar amount of underwriting commissions and the amount retained by the principal underwriter for each of the Fund's last three fiscal years.

(b) *Compensation*. Provide the information required by the following table with respect to all commissions and other compensation received by each principal underwriter, who is an affiliated person of the Fund or an affiliated person of that affiliated person, directly or indirectly, from the Fund during the Fund's most recent fiscal year:

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| Name of Principal Underwriter | Net Underwriting Discounts and Commissions | Compensation on Redemptions and Repurchases | Brokerage Commissions | Other Compensation |

**Instruction**

Disclose in a footnote to the table the type of services rendered in consideration for the compensation listed under column (5).

(c) *Other Payments*. With respect to any payments made by the Fund to an underwriter or dealer in the Fund's shares during the Fund's last fiscal year, disclose the name

and address of the underwriter or dealer, the amount paid and basis for determining that amount, the circumstances surrounding the payments, and the consideration received by the Fund. Do not include information about:

(1) Payments made through deduction from the offering price at the time of sale of securities issued by the Fund;

(2) Payments representing the purchase price of portfolio securities acquired by the Fund;

(3) Commissions on any purchase or sale of portfolio securities by the Fund; or

(4) Payments for investment advisory services under an investment advisory contract.

**Instructions**

1. Do not include in response to this paragraph information provided in response to paragraph (b) or with respect to service fees under the Instruction to Item 12(b)(2). Do not include any payment for a service excluded by Instructions 1 and 2 to Item 19(d) or by Instruction 2 to Item 34.

2. If the payments were made under an arrangement or policy applicable to dealers generally, describe only the arrangement or policy.

**Item 26. Calculation of Performance Data**

(a) *Money Market Funds*. Yield quotation(s) for a Money Market Fund included in the prospectus should be calculated according to paragraphs (a)(1) – (4).

(1) *Yield Quotation*. Based on the 7 days ended on the date of the most recent balance sheet included in the registration statement, calculate the Fund's yield by determining the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical pre-existing account having a balance of one share at the beginning of the period, subtracting a hypothetical charge reflecting deductions from shareholder accounts, and dividing the difference by the value of the account at the beginning of the base period to obtain the base period return, and then multiplying the base period return by (365/7) with the resulting yield figure carried to at least the nearest hundredth of one percent.

(2) *Effective Yield Quotation*. Based on the 7 days ended on the date of the most recent balance sheet included in the registration statement, calculate the Fund's effective yield, carried to at least the nearest hundredth of one percent, by determining the net change, exclusive of capital changes and income other than investment income, in the value of a hypothetical pre-existing account having a balance of one share at the beginning of the period, subtracting a hypothetical charge reflecting deductions from shareholder accounts, and dividing the difference by the value of the account at the beginning of the base period to

obtain the base period return, and then compounding the base period return by adding 1, raising the sum to a power equal to 365 divided by 7, and subtracting 1 from the result, according to the following formula:

$$\text{EFFECTIVE YIELD} = [(\text{BASE PERIOD RETURN} + 1)^{365/7}] - 1.$$

(3) *Tax Equivalent Current Yield Quotation*. Calculate the Fund's tax equivalent current yield by dividing that portion of the Fund's yield (as calculated under paragraph (a)(1)) that is tax- exempt by 1 minus a stated income tax rate and adding the quotient to that portion, if any, of the Fund's yield that is not tax-exempt.

(4) *Tax Equivalent Effective Yield Quotation*. Calculate the Fund's tax equivalent effective yield by dividing that portion of the Fund's effective yield (as calculated under paragraph (a)(2)) that is tax-exempt by 1 minus a stated income tax rate and adding the quotient to that portion, if any, of the Fund's effective yield that is not tax-exempt.

**Instructions**

1. When calculating yield or effective yield quotations, the calculation of net change in account value must include:

(a) The value of additional shares purchased with dividends from the original share and dividends declared on both the original shares and additional shares; and

(b) All fees, other than non-recurring account or sales charges, that are imposed on all shareholder accounts in proportion to the length of the base period. For any account fees that vary with the size of the account, assume an account size equal to the Fund's mean (or median) account size.

2. Exclude realized gains and losses from the sale of securities and unrealized appreciation and depreciation from the calculation of yield and effective yield. Exclude income other than investment income.

3. Disclose the amount or specific rate of any nonrecurring account or sales charges not included in the calculation of the yield.

4. If the Fund holds itself out as distributing income that is exempt from Federal, state, or local income taxation, in calculating yield and effective yield (but not tax equivalent yield or tax equivalent effective yield), reduce the yield quoted by the effect of any income taxes on the shareholder receiving dividends, using the maximum rate for individual income taxation. For example, if the Fund holds itself out as distributing income exempt from Federal taxation and the income taxes of State A, but invests in some securities of State B, it must

reduce its yield by the effect of state income taxes that must be paid by the residents of State A on that portion of the income attributable to the securities of State B.

(b) *Other Funds*. Performance information included in the prospectus should be calculated according to paragraphs (b)(1) - (6).

(1) *Average Annual Total Return Quotation*. For the 1-, 5-, and 10-year periods ended on the date of the most recent balance sheet included in the registration statement (or for the periods the Fund has been in operation), calculate the Fund's average annual total return by finding the average annual compounded rates of return over the 1-, 5-, and 10-year periods (or for the periods of the Fund's operations) that would equate the initial amount invested to the ending redeemable value, according to the following formula:

$$P(1+T)^n = ERV$$

Where:

P = a hypothetical initial payment of $1,000.
T = average annual total return.
n = number of years.
ERV = ending redeemable value of a hypothetical $1,000 payment made at the beginning of the 1-, 5-, or 10-year periods at the end of the 1-, 5-, or 10- year periods (or fractional portion).

**Instructions**

1. Assume the maximum purchase charge (or other charges deducted from payments) is deducted from the initial $1,000 payment.

2. Assume all distributions by the Fund are reinvested at the price stated in the prospectus (including any purchase charge imposed upon reinvestment of dividends) on the reinvestment dates during the period.

3. Include all recurring fees that are charged to all shareholder accounts. For any account fees that vary with the size of the account, assume an account size equal to the Fund's mean (or median) account size. Reflect, as appropriate, any recurring fees charged to shareholder accounts that are paid other than by redemption of the Fund's shares.

4. Determine the ending redeemable value by assuming a complete redemption at the end of the 1-, 5-, or 10-year periods and the deduction of all nonrecurring charges deducted at the end of each period. If shareholders are assessed an exit charge, assume the

maximum exit charge is deducted at the times, in the amounts, and under the terms disclosed in the prospectus.

5. State the average annual total return quotation to the nearest hundredth of one percent.

6. Total return information in the prospectus need only be current to the end of the Fund's most recent fiscal year.

(2) *Average Annual Total Return (After Taxes on Distributions) Quotation*. For the 1-, 5-, and 10-year periods ended on the date of the most recent balance sheet included in the registration statement (or for the periods the Fund has been in operation), calculate the Fund's average annual total return (after taxes on distributions) by finding the average annual compounded rates of return over the 1-, 5-, and 10-year periods (or for the periods of the Fund's operations) that would equate the initial amount invested to the ending value, according to the following formula:

$$P(1+T)^n = ATV_D$$

Where:

P = a hypothetical initial payment of $1,000.
T = average annual total return.
n = number of years.
$ATV_D$ =ending value of a hypothetical $1,000 payment made at the beginning of the 1-, 5-, or 10-year periods at the end of the 1-, 5-, or 10-year periods (or fractional portion), after taxes on fund distributions but not after taxes on redemption.

**Instructions**

1. Assume the maximum purchase charge (or other charges deducted from payments) is deducted from the initial $1,000 payment.

2. Assume all distributions by the Fund, less the taxes due on such distributions, are reinvested at the price stated in the prospectus (including any purchase charge imposed upon reinvestment of dividends) on the reinvestment dates during the period.

3. Calculate the taxes due on any distributions by the Fund by applying the tax rates specified in Instruction 4 to each component of the distributions on the reinvestment date (*e.g.*, ordinary income, short-term capital gain, long-term capital gain). The taxable amount and tax character of each distribution should be as specified by the Fund on the dividend declaration date, but may be adjusted to reflect subsequent recharacterizations of distributions. Distributions should be adjusted to reflect the Federal tax impact the distribution would have on an individual taxpayer on the reinvestment date. For example, assume no taxes are due on the portion of any distribution that would not result in Federal income tax on an individual, *e.g.*, tax-exempt interest or non-taxable returns of capital. The effect of applicable tax credits,

such as the foreign tax credit, should be taken into account in accordance with Federal tax law.

4. Calculate the taxes due using the highest individual marginal Federal income tax rates in effect on the reinvestment date. The rates used should correspond to the tax character of each component of the distributions (*e.g.*, ordinary income rate for ordinary income distributions, short-term capital gain rate for short-term capital gain distributions, long-term capital gain rate for long-term capital gain distributions). Note that the required tax rates may vary over the measurement period. Disregard any potential tax liabilities other than Federal tax liabilities (*e.g.*, state and local taxes); the effect of phaseouts of certain exemptions, deductions, and credits at various income levels; and the impact of the Federal alternative minimum tax.

5. Include all recurring fees that are charged to all shareholder accounts. For any account fees that vary with the size of the account, assume an account size equal to the Fund's mean (or median) account size. Assume that no additional taxes or tax credits result from any redemption of shares required to pay such fees. Reflect, as appropriate, any recurring fees charged to shareholder accounts that are paid other than by redemption of the Fund's shares.

6. Determine the ending value by assuming a complete redemption at the end of the 1-, 5-, or 10-year periods and the deduction of all nonrecurring charges deducted at the end of each period. If shareholders are assessed an exit charge, assume the maximum exit charge is deducted at the times, in the amounts, and under the terms disclosed in the prospectus. Assume that the redemption has no tax consequences.

7. State the average annual total return (after taxes on distributions) quotation to the nearest hundredth of one percent.

(3) *Average Annual Total Return (After Taxes on Distributions and Redemption) Quotation*. For the 1-, 5-, and 10-year periods ended on the date of the most recent balance sheet included in the registration statement (or for the periods the Fund has been in operation), calculate the Fund's average annual total return (after taxes on distributions and redemption) by finding the average annual compounded rates of return over the 1-, 5-, and 10-year periods

(or for the periods of the Fund's operations) that would equate the initial amount invested to the ending value, according to the following formula:

$$P(1+T)^n = ATV_{DR}$$

Where:

P = a hypothetical initial payment of $1,000.
T = average annual total return (after taxes on distributions and redemption).
n = number of years.
$ATV_{DR}$ = ending value of a hypothetical $1,000 payment made at the beginning of the 1-, 5-, or 10-year periods (or fractional portion), after taxes on fund distribution and redemption.

**Instructions**

1. Assume the maximum purchase charge (or other charges deducted from payments) is deducted from the initial $1,000 payment.

2. Assume all distributions by the Fund, less the taxes due on such distributions, are reinvested at the price stated in the prospectus (including any purchase charge imposed upon reinvestment of dividends) on the reinvestment dates during the period.

3. Calculate the taxes due on any distributions by the Fund by applying the tax rates specified in Instruction 4 to each component of the distributions on the reinvestment date (*e.g.*, ordinary income, short-term capital gain, long-term capital gain). The taxable amount and tax character of each distribution should be as specified by the Fund on the dividend declaration date, but may be adjusted to reflect subsequent recharacterizations of distributions. Distributions should be adjusted to reflect the Federal tax impact the distribution would have on an individual taxpayer on the reinvestment date. For example, assume no taxes are due on the portion of any distribution that would not result in Federal income tax on an individual, *e.g.*, tax-exempt interest or non-taxable returns of capital. The effect of applicable tax credits, such as the foreign tax credit, should be taken into account in accordance with Federal tax law.

4. Calculate the taxes due using the highest individual marginal Federal income tax rates in effect on the reinvestment date. The rates used should correspond to the tax character of each component of the distributions (*e.g.*, ordinary income rate for ordinary income distributions, short-term capital gain rate for short-term capital gain distributions, long-term capital gain rate for long-term capital gain distributions). Note that the required tax rates may vary over the measurement period. Disregard any potential tax liabilities other than Federal tax liabilities (*e.g.*, state and local taxes); the effect of phaseouts of certain

exemptions, deductions, and credits at various income levels; and the impact of the Federal alternative minimum tax.

5. Include all recurring fees that are charged to all shareholder accounts. For any account fees that vary with the size of the account, assume an account size equal to the Fund's mean (or median) account size. Assume that no additional taxes or tax credits result from any redemption of shares required to pay such fees. Reflect, as appropriate, any recurring fees charged to shareholder accounts that are paid other than by redemption of the Fund's shares.

6. Determine the ending value by assuming a complete redemption at the end of the 1-, 5-, or 10-year periods and the deduction of all nonrecurring charges deducted at the end of each period. If shareholders are assessed an exit charge, assume the maximum exit charge is deducted at the times, in the amounts, and under the terms disclosed in the prospectus.

7. Determine the ending value by subtracting capital gains taxes resulting from the redemption and adding the tax benefit from capital losses resulting from the redemption.

(a) Calculate the capital gain or loss upon redemption by subtracting the tax basis from the redemption proceeds (after deducting any nonrecurring charges as specified by Instruction 6).

(b) The Fund should separately track the basis of shares acquired through the $1,000 initial investment and each subsequent purchase through reinvested distributions. In determining the basis for a reinvested distribution, include the distribution net of taxes assumed paid from the distribution, but not net of any purchase charges imposed upon reinvestment. Tax basis should be adjusted for any distributions representing returns of capital and any other tax basis adjustments that would apply to an individual taxpayer, as permitted by applicable Federal tax law.

(c) The amount and character (*e.g.*, short-term or long-term) of capital gain or loss upon redemption should be separately determined for shares acquired through the $1,000 initial investment and each subsequent purchase through reinvested distributions. The Fund should not assume that shares acquired through reinvestment of distributions have the same holding period as the initial $1,000 investment. The tax character should be determined by the length of the measurement period in the case of the initial $1,000 investment and the length of the period between reinvestment and the end of the measurement period in the case of reinvested distributions.

(d) Calculate the capital gains taxes (or the benefit resulting from tax losses) using the highest Federal individual capital gains tax rate for gains of the appropriate character in effect on the redemption date and in accordance with Federal tax law applicable on the redemption date. For example, applicable Federal tax law should be used to determine whether and how gains and losses from the sale of shares with different holding periods should be netted, as well as the tax character (*e.g.*, short-term or long-term) of any resulting gains or losses. Assume that a shareholder has sufficient capital gains of the same character

from other investments to offset any capital losses from the redemption so that the taxpayer may deduct the capital losses in full.

8. State the average annual total return (after taxes on distributions and redemption) quotation to the nearest hundredth of one percent.

(4) *Yield Quotation*. Based on a 30-day (or one month) period ended on the date of the most recent balance sheet included in the registration statement, calculate the Fund's yield by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period, according to the following formula:

$$YIELD = 2\left[\left(\frac{a-b}{cd} + 1\right)^{6} - 1\right]$$

Where:

a = dividends and interest earned during the period.
b = expenses accrued for the period (net of reimbursements).
c = the average daily number of shares outstanding during the period that were entitled to receive dividends.
d = the maximum offering price per share on the last day of the period.

Instructions

1. To calculate interest earned on debt obligations for purposes of "a" above:

(a) Calculate the yield to maturity of each obligation held by the Fund based on the market value of the obligation (including actual accrued interest) at the close of business on the last business day of each month or, with respect to obligations purchased during the month, the purchase price (plus actual accrued interest). The maturity of an obligation with a call provision(s) is the next call date on which the obligation reasonably may be expected to be called, or if none, the maturity date.

(b) Divide the yield to maturity by 360 and multiply the quotient by the market value of the obligation (including actual accrued interest) to determine the interest income on the obligation for each day of the subsequent month that the obligation is in the portfolio. Assume that each month has 30 days.

(c) Total the interest earned on all debt obligations and all dividends accrued on all equity securities during the 30-day (or one month) period. Although the period for calculating interest earned is based on calendar months, a 30-day yield may be calculated by aggregating the daily interest on the portfolio from portions of 2 months. In addition, a Fund may recalculate daily interest income on the portfolio more than once a month.

(d) For a tax-exempt obligation issued without original issue discount and having a current market discount, use the coupon rate of interest in lieu of the yield to maturity. For a

tax-exempt obligation with original issue discount in which the discount is based on the current market value and exceeds the then-remaining portion of original issue discount (market discount), base the yield to maturity on the imputed rate of the original issue discount calculation. For a tax-exempt obligation with original issue discount, where the discount based on the current market value is less than the then-remaining portion of original issue discount (market premium), base the yield to maturity on the market value.

2. For discount and premium on mortgage or other receivables-backed obligations that are expected to be subject to monthly payments of principal and interest ("paydowns"):

(a) Account for gain or loss attributable to actual monthly paydowns as an increase or decrease to interest income during the period; and

(b) The Fund may elect:

(i) To amortize the discount and premium on the remaining securities, based on the cost of the securities, to the weighted average maturity date, if the information is available, or to the remaining term of the securities, if the weighted average maturity date is not available; or

(ii) Not to amortize the discount or premium on the remaining securities.

3. Solely for the purpose of calculating yield, recognize dividend income by accruing 1/360 of the stated dividend rate of the security each day that the security is in the portfolio.

4. Do not use equalization accounting in calculating yield.

5. Include expenses accrued under a plan adopted under rule 12b-1 in the expenses accrued for the period. Reimbursement accrued under the plan may reduce the accrued expenses, but only to the extent the reimbursement does not exceed expenses accrued for the period.

6. Include in the expenses accrued for the period all recurring fees that are charged to all shareholder accounts in proportion to the length of the base period. For any account fees that vary with the size of the account, assume an account size equal to the Fund's mean (or median) account size.

7. If a broker-dealer or an affiliate of the broker-dealer (as defined in rule 1-02(b) of Regulation S-X [17 CFR 210.1- 02(b)]) has, in connection with directing the Fund's brokerage transactions to the broker-dealer, provided, agreed to provide, paid for, or agreed to pay for, in whole or in part, services provided to the Fund (other than brokerage and research services as those terms are used in section 28(e) of the Securities Exchange Act [15 U.S.C. 78bb(e)]), add to expenses accrued for the period an estimate of additional amounts that

would have been accrued for the period if the Fund had paid for the services directly in an arm's length transaction.

8. Undeclared earned income, calculated in accordance with generally accepted accounting principles, may be subtracted from the maximum offering price. Undeclared earned income is the net investment income that, at the end of the base period, has not been declared as a dividend, but is reasonably expected to be and is declared as a dividend shortly thereafter.

9. Disclose the amount or specific rate of any nonrecurring account or sales charges.

10. If, in connection with the sale of the Fund's shares, an exit charge payable in installments is imposed, the "maximum public offering price" includes the aggregate amount of the installments ("installment charge amount").

(5) *Tax Equivalent Yield Quotation.* Based on a 30-day (or one month) period ended on the date of the most recent balance sheet included in the registration statement, calculate the Fund's tax equivalent yield by dividing that portion of the Fund's yield (as calculated under paragraph (b)(2)) that is tax-exempt by 1 minus a stated income tax rate and adding the quotient to that portion, if any, of the Fund's yield that is not tax-exempt.

(6) *Non-Standardized Performance Quotation.* A Fund may calculate performance using any other historical measure of performance (not subject to any prescribed method of computation) if the measurement reflects all elements of return.

**Item 27. Financial Statements**

(a) Include, in a separate section following the responses to the preceding Items, the financial statements and schedules required by Regulation S-X. The specimen price-make-up sheet required by Instruction 4 to Item 23(c) may be provided as a continuation of the balance sheet specified by Regulation S-X.

**Instructions**

1. The statements of any subsidiary that is not a majority-owned subsidiary required by Regulation S-X may be omitted from Part B and included in Part C.

2. In addition to the requirements of rule 3-18 of Regulation S-X [17 CFR 210.3-18], any Fund registered under the Investment Company Act that has not previously had an effective registration statement under the Securities Act must include in its initial registration statement under the Securities Act any additional financial statements and condensed financial information (which need not be audited) necessary to make the financial statements and

condensed financial information included in the registration statement current as of a date within 90 days prior to the date of filing.

**Item 27A. Annual and Semi-Annual Shareholder Report**

(a) *Annual and Semi-Annual Reports*. Every annual shareholder report required by rule 30e-1 must contain the information required by paragraphs (b) through (i) of this Item and may contain the information permitted by paragraph (j) of this Item. Every semi-annual shareholder report required by rule 30e-1 must contain the information required by paragraphs (b), (c), (e), (f), (h), and (i) of this Item and may contain other information permitted or required in annual shareholder reports.

**Instructions**

1. For annual shareholder reports, disclose the information required or permitted by paragraphs (b) through (j) of this Item in the same order as these items appear below. In an annual shareholder report that appears on a website or is otherwise provided electronically, organize the information in a manner that gives each item similar prominence as that provided by the order prescribed in this Instruction.

2. For semi-annual shareholder reports, disclose the information that must appear in the report pursuant to paragraph (a) of this Item in the same order as these items appear below. Any other information permitted in annual shareholder reports, which the Fund chooses to include in its semi-annual shareholder report pursuant to this Item, must also be included in the same order as these items appear below. For example, if a Fund chooses to include the information described in paragraph (g) in its semi-annual shareholder report, the information in the Fund's semi-annual report must appear in the following order: paragraphs (b), (c), (e), (f), (g), (h), and (i). In a semi-annual shareholder report that appears on a website or electronically, organize the information in a manner that gives each item similar prominence as that provided by the order prescribed in this Instruction.

3. Do not include information in an annual or semi-annual shareholder report other than disclosure that Item 27A and its Instructions require or permit in annual or semi-annual shareholder reports, as applicable, or as provided by rule 8b-20 under the Investment Company Act [17 CFR 270.8b-20].

4. Prepare a separate annual or semi-annual shareholder report for each Series of a Fund.

5. A Fund may not incorporate by reference any information into its annual or semi-annual shareholder report.

6. Use plain English in an annual or semi-annual shareholder report, taking into consideration Fund shareholders' level of financial experience. Include white space and use other design features to make the annual or semi-annual shareholder report easy to read. The annual or semi-annual shareholder report should be concise and direct. Specifically: (i) use

short sentences and paragraphs; (ii) use definite, concrete, everyday words; (iii) use active voice; (iv) avoid legal jargon or highly technical business terms unless clearly explained; (v) avoid multiple negatives; (vi) use "you," "we," etc. to speak directly to shareholders; and (vii) use descriptive headers and sub-headers. Do not use vague or imprecise "boilerplate."

7. If a required disclosure is inapplicable, a Fund may omit the disclosure from an annual or semi-annual shareholder report. A Fund may modify a required legend or narrative information if the modified language contains comparable information.

8. Funds should use design techniques that promote effective communication. Funds are encouraged to use, as appropriate, question-and-answer formats, charts, graphs, tables, bullet lists, and other graphics or text features to respond to the required disclosures.

For an annual or semi-annual shareholder report that appears on a website or is otherwise provided electronically, funds are encouraged to use online tools (for example, tools that populate discrete sets of information based on investor selections—*e.g.*, Class-specific information, performance information over different time horizons, or the dollar value used to illustrate the Fund's expenses or to populate the performance line graph, as applicable). The default presentation must use the value that the applicable form requirement prescribes. Funds also may include: (i) a means of facilitating electronic access to video or audio messages, or other forms of information (*e.g.*, hyperlink, website address, Quick Response Code ("QR code"), or other equivalent methods or technologies); (ii) mouse-over windows; (iii) pop-up boxes; (iv) chat functionality; (v) expense calculators; or (vi) other forms of electronic media, communications, or tools designed to enhance an investor's understanding of material in the annual or semi-annual shareholder report. Any information that is not included in the annual or semi-annual shareholder report filed on Form N-CSR shall have the same status, under the Federal securities laws, as any other website or electronic content that the Fund produces or disseminates.

9. In an annual or semi-annual shareholder report posted on a website or otherwise provided electronically, Funds must provide a means of facilitating access to any information that is referenced in the annual or semi-annual shareholder report if the information is available online, including, for example, hyperlinks to the Fund's prospectus and financial statements. In an annual or semi-annual shareholder report that is delivered in paper format, Funds may include website addresses, QR codes, or other means of facilitating access to such information. Funds must provide a link specific enough to lead investors directly to the particular information, rather than to the home page or section of the fund's website other than on which the information is posted. The link may be to a central site central site with prominent links to the referenced information.

10. Explanatory or supplemental information included in an annual or semi-annual shareholder report under Instruction 8 or 9 may not, because of the nature, quantity, or manner of presentation, obscure or impede understanding of the information that must be included.

When using interactive graphics or tools, Funds may include instructions on their use and interpretation.

11. Unless otherwise indicated, the reporting period for an annual shareholder report is the Fund's most recent fiscal year, and the reporting period for a semi-annual shareholder report is the Fund's most recent fiscal half-year.

12. The Fund's annual or semi-annual shareholder report must be given greater prominence than other materials that accompany the report, with the exception of other shareholder reports, summary prospectuses or statutory prospectuses (both as defined in rule 498 under the Securities Act [17 CFR 230.498]), or a notice of internet availability of proxy materials under rule 14a-6 under the Securities Exchange Act [17 CFR 240.14a-6].

13. In an annual or semi-annual shareholder report posted on a website or otherwise provided electronically, Funds may satisfy legibility requirements applicable to printed documents by presenting all required information in a format that promotes effective communication as described in Instruction 8. The body of every printed annual or semi-annual shareholder report and other tabular data included therein shall comply with the applicable legibility of prospectus requirements set forth in rule 420 under the Securities Act of 1933.

(b) *Cover Page or Beginning of Annual or Semi-Annual Shareholder Report*. Include on the cover page or at the beginning of the annual or semi-annual shareholder report:

(1) The Fund's name and the Class or Classes, if any, to which the annual or semi-annual shareholder report relates.

(2) The exchange ticker symbol of the Fund's shares or, if the annual or semi-annual shareholder report relates to one or more Classes of the Fund's shares, adjacent to each such Class, its exchange ticker symbol. If the Fund is an Exchange-Traded Fund, also identify the principal U.S. market or markets on which the Fund's shares are traded.

(3) A statement identifying the document as an "annual shareholder report" or a "semi-annual shareholder report," as applicable.

(4) The following statement:

This [annual or semi-annual] shareholder report contains important information about [the Fund] for the period of [beginning date] to [end date] [as well as certain changes to the

Fund]. You can find additional information about the Fund at [_____]. You can also request this information by contacting us at [_____].

**Instructions**

1. A Fund may include graphics, logos, and other design or text features on the cover page or at the beginning of its annual or semi-annual shareholder report to help shareholders identify the materials as the Fund's annual or semi-annual shareholder report.

2. In the statement required under paragraph (b)(4), provide the toll-free telephone number and, as applicable, email address that shareholders can use to request additional information about the Fund. Provide a website address where information about the Fund is available. The website address must be specific enough to lead shareholders directly to the materials that are required to be accessible under rule 30e-1, rather than to the home page or a section of the website other than on which the materials are posted. The website may be a central site with prominent links to the materials that must be accessible under rule 30e-1. In addition to the website address, a Fund may include other ways an investor can find or request additional information about the Fund (*e.g.*, QR code, mobile application). A Fund that discloses material fund changes under paragraph (g) of this Item 27A must include the bracketed language in the required statement referring to certain changes to the Fund.

(c) *Fund Expenses*.

In a table, provide the expenses of an ongoing $10,000 investment in the Fund during the reporting period. The table must show: (i) the beginning value of the account; (ii) total return during the period, before deducting expenses; (iii) expenses in dollars paid during the period; (iv) the ending value of the account based on net asset value return; (v) for ETFs

only, the ending value of the account based on market value return; and (vi) expenses as a percent of an investor's investment in the Fund (i.e. expense ratio).

**What were your Fund costs for the period?**
***(based on a hypothetical $10,000 investment)***

| [Fund or Class Name] | Beginning account value [beginning date] | Total return before costs paid* | **Costs paid** † | Ending account value [end date] | [For ETFs only] Ending account value [end date](based on market value return) | **Costs paid as a percentage of your investment**† |
|---|---|---|---|---|---|---|
| | $10,000 | + (plus) $[x] | **- (minus) $[x]** | = (equals) $[x] | | **__%** |

* Qualitatively describe other costs included in total return, if material to the fund.

† The costs paid during the period do not reflect certain costs paid outside the fund (such as purchase and exit costs charged by the shareholder's broker-dealer).

**Instructions**

1. General.

(a) Round all percentages in the table to the nearest hundredth of one percent and round all dollar figures in the table to the nearest dollar.

(b) Provide the amounts in each of the columns as a mathematical expression, as appropriate (*i.e.*, include +, - and = symbols). Costs paid during the period must be expressed as a negative amount. Total return, if negative during the period, must be expressed as a negative amount.

(c) Use text and/or table features to make the "costs paid" and "costs paid as a percentage of your investment" columns more noticeable and more prominent than the other

columns of the table through, for example: graphics, larger font size, different border width or column shading, or different colors or font styles.

(d) If the Fund is a Feeder Fund, reflect the aggregate expenses of the Feeder Fund and the Master Fund. In a footnote to the expense table, state that the expense table reflects the expenses of both the Feeder and Master Funds.

(e) If the report covers more than one Class of a Multiple Class Fund, provide a separate expense table, or a separate line item in the expense table, for each Class.

(f) In a footnote to the "Total return before costs paid" column, the Fund must qualitatively describe, in plain English under rule 421(d) under the Securities Act, other costs included in total return, if material to the fund. For example, if applicable, the Fund must explain that the total return includes fund investment transaction costs, securities lending costs, or acquired fund fees and expenses, which materially reduced total return.

(g) In a footnote to the "Costs paid" and the "Costs paid as a percentage of your investment" columns, the Fund must briefly explain, in plain English under rule 421(d) under the Securities Act, that the table does not reflect shareholder transaction costs associated with purchasing or selling Fund shares.

(h) If the Fund is an Exchange-Traded Fund:

*(i)* In addition to the "Ending account value" column (which, for an Exchange-Traded Fund, must be titled "Ending account value (based on net asset value return)"), also provide the "Ending account value (based on market value return)" column in the expense table.

*(ii)* Modify the narrative explanation to state that investors may pay brokerage commissions on their purchases and sales of Exchange-Traded Fund shares, which are not reflected in the expense table; and

*(iii)* Exclude any fees charged for the purchase and redemption of the Fund's creation units.

(i) If the Fund's annual or semi-annual shareholder report covers a period of time that is less than the full reporting period of the annual or semi-annual report, the Fund must include a footnote to the table to briefly explain that expenses for the full reporting period would be higher.

(j) If the disclosed expenses include extraordinary expenses, the Fund may include a brief footnote to the "Costs paid as a percentage of your investment" column disclosing what actual costs would have been if extraordinary expenses were not included. "Extraordinary expenses" refers to expenses that are distinguished by their unusual nature and by the infrequency of their occurrence. Unusual nature means the expense has a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the Fund, taking into account the environment in which the Fund operates.

Infrequency of occurrence means the expense is not reasonably expected to recur in the foreseeable future, taking into consideration the environment in which the Fund operates. The environment of a Fund includes such factors as the characteristics of the industry or industries in which it operates, the geographical location of its operations, and the nature and extent of government regulation.

2. *Computation*.

(a) To determine "Costs paid," multiply the figure in the "Cost paid as a percentage of your investment" column by the average account value over the period based on an investment of $10,000 at the beginning of the period.

(b) Assume reinvestment of all dividends and distributions.

(c) In the annual shareholder report, disclose the expense ratio in the "Costs paid as a percentage of your investment" column as it appears in the Fund's most recent audited financial statements or financial highlights. In the semi-annual shareholder report, the Fund's expense ratio in the "Costs paid as a percentage of your investment column" should be calculated in the manner required by Instruction 4(b) to Item 13(a) using the expenses for the Fund's most recent fiscal half-year. Express the expense ratio on an annualized basis.

(d) The figure reflected in the "Total return before costs paid" column should equal the figure in the "Ending account value (based on net asset value return)" column less the figure in the "Beginning account value" column less the figure in the "Costs paid" column.

(e) To calculate the Fund's "Ending account value (based on net asset value return)," multiply $10,000 by the Fund's net asset value return. In the annual shareholder report, use the Fund's net asset value return as it appears in the Fund's most recent audited financial statements or financial highlights. In the semi-annual report, the Fund's net asset value return should be calculated in the manner required by Instruction 3 to Item 13(a).

(f) For Exchange-Traded Funds only, calculate the Fund's "Ending account value (based on market value return)" by multiplying $10,000 by the Fund's market value return. In the semi-annual report, the Fund's market value return should be calculated in the manner required by Instruction 3 to Item 13(a). In the annual shareholder report, use the Fund's

market value return as it appears in the Fund's most recent audited financial statements or financial highlights.

(d) *Management's Discussion of Fund Performance*. Disclose the following information unless the Fund is a Money Market Fund:

(1) Briefly summarize the key factors that materially affected the Fund's performance during the reporting period, including the relevant market conditions and the investment strategies and techniques used by the Fund's investment adviser.

**Instruction**:

1. As appropriate, use graphics or text features, such as bullet lists or tables, to present the key factors. Do not include a lengthy, generic, or overly broad discussion of the factors that generally affected market performance during the reporting period.

(2) Line graph and table.

(i) Provide a line graph comparing the initial and subsequent account values at the end of each of the most recently completed 10 fiscal years of the Fund (or for the life of the Fund, if shorter), but only for periods subsequent to the effective date of the Fund's registration statement. Assume a $10,000 initial investment at the beginning of the first fiscal year in an appropriate broad-based securities market index for the same period.

(ii) In a table placed within or next to the graph, provide the Fund's average annual total returns for the 1-, 5-, and 10-year periods as of the end of the reporting period (or for the life of the Fund, if shorter), but only for periods subsequent to the effective date of the Fund's registration statement. Separately provide the average annual total returns with and

without sales charges, as applicable. Also provide the average annual total returns of an appropriate broad-based securities market index for the same periods.

(iii) Include a statement accompanying the graph and table to the effect that:

(A) The Fund's past performance is not a good predictor of the Fund's future performance. Use text features to make the statement noticeable and prominent through, for example: graphics, larger font size, or different colors or font styles.

(B) The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or redemption of fund shares.

**Instructions**

1. *Line Graph Computation*.

(a) Assume that the initial investment was made at the offering price last calculated on the business day before the first day of the first fiscal year.

(b) Base subsequent account values on the net asset value of the Fund last calculated on the last business day of the first and each subsequent fiscal year.

(c) Calculate the final account value by assuming the account was closed and redemption was at the price last calculated on the last business day of the reporting period.

(d) Base the line graph on the Fund's required minimum initial investment if that amount exceeds $10,000.

2. *Sales Load*. Reflect any purchase charges (or any other fees charged at the time of purchasing shares or opening an account) by beginning the line graph at the amount that actually would be invested (i.e., assume that the maximum purchase charge, and other charges deducted from payments, is deducted from the initial $10,000 investment). For a Fund whose shares are subject to a contingent exit charge, assume the deduction of the maximum exit charge (or other charges) that would apply for a complete redemption that received the price last calculated on the last business day of the reporting period. For any other exit charge,

assume that the deduction is in the amount(s) and at the time(s) that the exit charge actually would have been deducted.

3. *Dividends and Distributions*. Assume reinvestment of all of the Fund's dividends and distributions on the reinvestment dates during the period, and reflect any purchase charge imposed upon reinvestment of dividends or distributions or both.

4. *Account Fees*. Reflect recurring fees that are charged to all accounts.

(a) For any account fees that vary with the size of the account, assume a $10,000 account size.

(b) Reflect, as appropriate, any recurring fees charged to shareholder accounts that are paid other than by redemption of the Fund's shares.

(c) Reflect an annual account fee that applies to more than one Fund by allocating the fee in the following manner: divide the total amount of account fees collected during the year by the Funds' total average net assets, multiply the resulting percentage by the average account value for each Fund and reduce the value of each hypothetical account at the end of each fiscal year during which the fee was charged.

5. *Table Computation*. Compute average annual total returns in accordance with Item 26(b)(1). To calculate average annual total returns without sales charges, do not deduct sales charges, as applicable, as otherwise described in the instructions to Item 26(b)(1). For the Fund's 1-year annual total return without sales charges in an annual shareholder report, use the 1-year total return in the Fund's most recent audited financial highlights.

6. *Appropriate Broad-Based Securities Market Index*. For purposes of this Item, an "appropriate broad-based securities market index" is one that is administered by an organization that is not an affiliated person of the Fund, its investment adviser, or principal underwriter, unless the index is widely recognized and used. A "broad-based index" is an index that represents the overall applicable domestic or international equity or debt markets, as appropriate. Adjust the index to reflect the reinvestment of dividends on securities in the index, but do not reflect the expenses of the Fund.

7. *Additional Indexes*. A Fund is encouraged to compare its performance not only to the required broad-based index, but also to other more narrowly based indexes that reflect the market sectors in which the Fund invests. A Fund also may compare its performance to an additional broad-based index, or to a non-securities index (*e.g.*, the Consumer Price Index), so long as the comparison is not misleading.

8. *Change in Index*. If the Fund uses an index that is different from the one used for the immediately preceding reporting period, explain the reason(s) for the change and

compare the Fund's annual change in the value of an investment in the hypothetical account with the new and former indexes.

9. *Interim Periods*. The line graph may compare the ending values of interim periods (*e.g.*, monthly or quarterly ending values), so long as those periods are after the effective date of the Fund's registration statement.

10. *Scale*. The axis of the graph measuring dollar amounts may use either a linear or a logarithmic scale.

11. *New Funds*. A New Fund (as defined in Instruction 7 to Item 8A) is not required to include the information specified by this Item in its annual shareholder report,

unless Form N-1A (or the Fund's annual Form N-CSR report) contains audited financial statements covering a period of at least 6 months.

12. *Change in Investment Adviser*. If the Fund has not had the same investment adviser for the previous 10 fiscal years, the Fund may begin the line graph on the date that the current adviser began to provide advisory services to the Fund so long as:

(a) Neither the current adviser nor any affiliate is or has been in "control" of the previous adviser under section 2(a) (9) [15 U.S.C. 80a-2(a)(9)];

(b) The current adviser employs no officer(s) of the previous adviser or employees of the previous adviser who were responsible for providing investment advisory or portfolio management services to the Fund; and

(c) The graph is accompanied by a statement explaining that previous periods during which the Fund was advised by another investment adviser are not shown.

13. *Multiple Class Funds*.

(a) Provide information about account values in the line graph under Item 27A(d)(2)(i) for at least one Class. The Fund can select which Class to include (*e.g.*, the oldest Class, the Class with the greatest net assets) if the Fund:

(i) Selects the Class with 10 or more years of annual returns if other Classes have fewer than 10 years of annual returns;

(ii) Selects the Class with the longest period of annual returns when the Classes all have fewer than 10 years of annual returns; and

(iii) If the Fund provides account values in the line graph for a Class that is different from the Class selected for the most immediately preceding annual shareholder report, briefly explain in a footnote to the line graph the reasons for selecting a different Class.

(b) Provide information about each Class's average annual total returns in the table under Item 27A(d)(2)(ii).

14. *Material Changes*. If a material change to the Fund has occurred during the period covered by the line graph and table, such as a change in investment adviser or a change

to the Fund's investment strategies, the Fund may include a brief legend or footnote to describe the relevant change and when it occurred.

15. *Availability of Updated Performance Information*. If the Fund provides updated performance information on its website or through other widely accessible mechanisms, direct shareholders to where they can find this information.

(3) If the Fund has a policy or practice of maintaining a specified level of distributions to shareholders, disclose if the Fund was unable to meet the specified level of distribution during the reporting period. Also discuss the extent to which the Fund's distribution policy resulted in distributions of capital.

(4) For an Exchange-Traded Fund, provide a table showing the number of days the Market Price of the Fund shares was greater than the Fund's net asset value and the number of days it was less than the Fund's net asset value (i.e., premium or discount) for the most recently completed calendar year, and the most recently completed calendar quarters since that year (or the life of the Fund, if shorter). The Fund may omit the information required by this paragraph if it satisfies the requirements of paragraphs (c)(1)(ii)–(iv) and (c)(1)(vi) of Rule 6c-11 [17 CFR 270.6c-11(c)(1)(ii)–(iv) and (c)(1)(vi)] under the Investment Company Act.

**Instructions**

1. Provide the information in tabular form.

2. Express the information as a percentage of the net asset value of the Exchange-Traded Fund, using separate columns for the number of days the Market Price was greater than the Fund's net asset value and the number of days it was less than the Fund's net asset value. Round all percentages to the nearest hundredth of one percent.

3. Adjacent to the table, provide a brief explanation that: shareholders may pay more than net asset value when they buy Fund shares and receive less than net asset value when they sell those shares, because shares are bought and sold at current market prices.

4. Include a statement that the data presented represents past performance and cannot be used to predict future results.

(e) *Fund Statistics*. Disclose the Fund's net assets, total number of portfolio holdings, and portfolio turnover rate as of the end of the reporting period. A Fund may provide additional statistics that the Fund believes would help shareholders better understand

the Fund's activities and operations during the reporting period (*e.g.*, tracking error, maturity, duration, average credit quality, or yield).

**Instructions**

1. If the Fund provides a statistic that is otherwise described in this form, it must follow any associated instructions describing the calculation method for the relevant statistic.

2. As appropriate, use graphics or text features, such as bullet lists or tables, to present the fund statistics.

3. If the Fund provides a statistic in a shareholder report that is otherwise included in, or could be derived from, the Fund's financial statements or financial highlights, the fund must use or derive such statistic from the Fund's most recent financial statements or financial highlights.

4. A Fund may briefly describe the significance or limitations of any disclosed statistics in a parenthetical, footnote, or similar presentation.

5. A Fund may include additional statistics only if they are reasonably related to the Fund's investment strategy.

(f) *Graphical Representation of Holdings*. One or more tables, charts, or graphs depicting the portfolio holdings of the Fund, as of the end of the reporting period, by reasonably identifiable categories (*e.g.*, type of security, industry sector, geographic regions, credit quality, or maturity) showing the percentage of (i) net asset value, (ii) total investments, (iii) net exposure, or (iv) total exposure attributable to each. The categories and the basis of the presentation should be disclosed in a manner reasonably designed to depict clearly the types of investments made by the Fund, given its investment objectives. A fund that uses "net exposure" or "total exposure" as a basis for representing its holdings may also include a brief explanation of this presentation. If the Fund depicts portfolio holdings according to the credit quality, it should include a brief description of how the credit quality of the holdings were determined, and if credit ratings, as defined in section 3(a)(60) of the Securities Exchange Act [15 U.S.C. 78(c)(a)(60)], assigned by a credit rating agency, as defined in section 3(a)(61) of the Securities Exchange Act [15 U.S.C. 78(c)(a)(61)], are used, concisely explain how they were identified and selected. This description should be included near, or as part of, the graphical representation.

(g) *Material Fund Changes*. Briefly describe any material change, with respect to any of the following items, that has occurred since the beginning of the reporting period or that the Fund plans to make in connection with updating its prospectus under section 10(a)(3)

of the Securities Act for the current fiscal year. The Fund also may describe other material changes that it would like to disclose to its shareholders.

(1) The Fund's name (as described in Item 1(a)(1));

(2) The Fund's investment objectives or goals (as described in Item 2);

(3) With respect to material increases, the Fund's ongoing annual fees, transaction fees, or maximum account fee (as described in Item 3);

(4) The Fund's principal investment strategies (as described in Item 4(a));

(5) The principal risks of investing in the Fund (as described in Item 4(b)(1));

(6) The Fund's investment adviser(s) (as described in Item 5(a)); and

(7) The Fund's portfolio manager(s) (as described in Item 5(b)).

**Instructions**

1. Provide a concise description of each material change that the fund describes as specified in this Item 27A(g). Provide enough detail to allow shareholders to understand each change and how each change may affect shareholders.

2. Include a legend to the effect of the following: "This is a summary of certain changes [and planned changes] to the Fund since [date]. For more complete information, you may review the Fund's next prospectus, which we expect to be available by [date] at [____] or upon request at [____]." Provide the toll-free telephone number and, as applicable, email address that shareholders can use to request copies of the Fund's prospectus. If the updated prospectus will be made available on a website, provide the address of the central site where a link to the prospectus will be available.

3. A Fund is not required to disclose a material change that occurred during the reporting period if the Fund already disclosed this change in its last annual shareholder report because, for example, the change occurred before the last annual shareholder report was

transmitted to shareholders or the Fund planned to make the change in connection with updating its prospectus under section 10(a)(3) of the Securities Act at that time.

(h) *Changes in and Disagreements with Accountants*. If the Fund is required to disclose on Form N-CSR the information that Item 304(a)(1) of Regulation S-K [17 CFR 229.304] requires, provide:

(1) A statement of whether the former accountant resigned, declined to stand for re-election, or was dismissed and the date thereof; and

(2) A brief, plain English description of disagreements(s) with the former accountant during the Fund's two most recent fiscal years and any subsequent interim period that the Fund discloses on Form N-CSR.

(i) *Statement Regarding Liquidity Risk Management Program*. If the board of directors reviewed the Fund's liquidity risk management program pursuant to rule 22e-4(b)(2)(iii) of the Act [17 CFR 270.22e-4(b)(2)(iii)] during the Fund's most recent fiscal half-year, briefly summarize the: (i) key factors or market events that materially affected the fund's liquidity risk during the reporting period; (ii) key features of the Fund's liquidity risk management program; and (iii) effectiveness of the Fund's liquidity risk management program over the past year.

**Instructions**

1. The disclosure responsive to this item should be tailored to the fund rather than rely on generic, standard disclosures.

2. If the board reviews the liquidity risk management program more frequently than annually, a fund may choose to include the discussion of the program's operation and effectiveness over the past year in one of either the fund's annual or semi-annual reports, but does not need to include it in both reports.

(j) *Availability of Additional Information*. Provide a brief, plain English statement that certain additional Fund information is available on the Fund's website. Include plain English references to, as applicable, the fund's prospectus, financial information, holdings, and proxy voting information. A Fund may also refer to other information available on the Fund's website if it reasonably believes that shareholders would likely view the information as important.

**Instructions**

1. Provide means of facilitating shareholders' access to the additional information in accordance with Instruction 9 to Item 27A(a).

2. If the Fund provides prominent links to the additional information it refers to under this Item 27A(j) on the same central site the Fund discloses under Item 27A(b), the

Fund may state that materials are available at the website address included at the beginning of its annual or semi-annual shareholder report. The Fund would not need to provide other means of facilitating shareholders' access to the relevant additional information under these circumstances.

(k) *Householding*. A Fund may include disclosure required under rule 30e-1(e)(3) [17 CFR 270.30e-1(e)(3)] or rule 498B(c)(3) under the Securities Act [17 CFR 230.498B(c)(3)] to explain how shareholders who have consented to receive a single annual or semi-annual shareholder report or notice of material changes at a shared address may revoke this consent.

**Part C – OTHER INFORMATION**

**Item 28. Exhibits**

Subject to General Instruction D regarding incorporation by reference and rule 483 under the Securities Act [17 CFR 230.483], file the exhibits listed below as part of the registration statement. Letter or number the exhibits in the sequence indicated and file copies rather than originals, unless otherwise required by rule 483. Reflect any exhibit incorporated

by reference in the list below and identify the previously filed document containing the incorporated material.

(a) *Articles of Incorporation*. The Fund's current articles of incorporation, charter, declaration of trust or corresponding instruments and any related amendment.

(b) *By-laws*. The Fund's current by-laws or corresponding instruments and any related amendment.

(c) *Instruments Defining Rights of Security Holders*. Instruments defining the rights of holders of the securities being registered, including the relevant portion of the Fund's articles of incorporation or by-laws.

(d) *Investment Advisory Contracts*. Investment advisory contracts relating to the management of the Fund's assets.

(e) *Underwriting Contracts*. Underwriting or distribution contracts between the Fund and a principal underwriter, and agreements between principal underwriters and dealers.

(f) *Bonus or Profit Sharing Contracts*. Bonus, profit sharing, pension, or similar contracts or arrangements in whole or in part for the benefit of the Fund's directors or officers in their official capacity. Describe in detail any plan not included in a formal document.

(g) *Custodian Agreements*. Custodian agreements and depository contracts under section 17(f) [15 U.S.C. 80a-17(f)] concerning the Fund's securities and similar investments, including the schedule of remuneration.

(h) *Other Material Contracts*. Other material contracts not made in the ordinary course of business to be performed in whole or in part on or after the filing date of the registration statement.

(i) *Legal Opinion*. An opinion and consent of counsel regarding the legality of the securities being registered, stating whether the securities will, when sold, be legally issued, fully paid, and nonassessable.

(j) *Other Opinions*. Any other opinions, appraisals, or rulings, and related consents relied on in preparing the registration statement and required by section 7 of the Securities Act [15 U.S.C. 77g].

(k) *Omitted Financial Statements*. Financial statements omitted from Item 27.

(l) *Initial Capital Agreements*. Any agreements or understandings made in consideration for providing the initial capital between or among the Fund, the underwriter, adviser, promoter or initial shareholders and written assurances from promoters or initial

shareholders that purchases were made for investment purposes and not with the intention of redeeming or reselling.

(m) *Rule 12b-1 Plan*. Any plan entered into by the Fund under rule 12b-1 and any agreements with any person relating to the plan's implementation.

(n) *Rule 18f-3 Plan*. Any plan entered into by the Fund under rule 18f-3, any agreement with any person relating to the plan's implementation, and any amendment to the plan or an agreement.

(o) *Reserved*.

(p) *Codes of Ethics*. Any codes of ethics adopted under rule 17j-1 of the Investment Company Act [17 CFR 270.17j-1] and currently applicable to the Fund (i.e., the codes of the Fund and its investment advisers and principal underwriters). If there are no codes of ethics applicable to the Fund, state the reason (*e.g.*, that the Fund is a Money Market Fund).

**Instructions**:

1. A Fund that is a Feeder Fund also must file a copy of all codes of ethics applicable to the Master Fund.

2. Schedules (or similar attachments) to the exhibits required by this Item are not required to be filed provided that they do not contain information material to an investment or voting decision and that information is not otherwise disclosed in the exhibit or the disclosure document. Each exhibit filed must contain a list briefly identifying the contents of all omitted schedules. Registrants need not prepare a separate list of omitted information if such information is already included within the exhibit in a manner that conveys the subject matter of the omitted schedules and attachments. In addition, the registrant must provide a copy of any omitted schedule to the Commission or its staff upon request.

3. The registrant may redact information from exhibits required to be filed by this Item if disclosure of such information would constitute a clearly unwarranted invasion of personal privacy (*e.g.*, disclosure of bank account numbers, social security numbers, home addresses and similar information).

4. The registrant may redact provisions or terms of exhibits required to be filed by paragraph (h) of this Item if those provisions or terms are both (1) not material and (2) would likely cause competitive harm to the registrant if publicly disclosed. If it does so, the registrant should mark the exhibit index to indicate that portions of the exhibit or exhibits have been omitted and include a prominent statement on the first page of the redacted exhibit that certain identified information has been excluded from the exhibit because it is both (1) not material and (2) would likely cause competitive harm to the registrant if publicly

disclosed. The registrant also must indicate by brackets where the information is omitted from the filed version of the exhibit.

If requested by the Commission or its staff, the registrant must promptly provide an unredacted copy of the exhibit on a supplemental basis. The Commission staff also may request the registrant to provide its materiality and competitive harm analyses on a supplemental basis. Upon evaluation of the registrant's supplemental materials, the Commission or its staff may request the registrant to amend its filing to include in the exhibit any previously redacted information that is not adequately supported by the registrant's materiality and competitive harm analyses. The registrant may request confidential treatment of the supplemental material pursuant to Rule 83 (§ 200.83 of this chapter) while it is in the possession of the Commission or its staff. After completing its review of the supplemental information, the Commission or its staff will return or destroy it at the request of the registrant, if the registrant complies with the procedures outlined in Rules 418 (§ 230.418 of this chapter).

5. Each exhibit identified in the exhibit index (other than an exhibit filed in eXtensible Business Reporting Language) must include an active link to an exhibit that is filed with the registration statement or, if the exhibit is incorporated by reference, an active hyperlink to the exhibit separately filed on EDGAR. If the registration statement is amended, each amendment must include active hyperlinks to the exhibits required with the amendment.

**Item 29. Persons Controlled by or Under Common Control with the Fund**

Provide a list or diagram of all persons directly or indirectly controlled by or under common control with the Fund. For any person controlled by another person, disclose the percentage of voting securities owned by the immediately controlling person or other basis of that person's control. For each company, also provide the state or other sovereign power under the laws of which the company is organized.

**Instructions**

1. Include the Fund in the list or diagram and show the relationship of each company to the Fund and to the other companies named, using cross-references if a company is controlled through direct ownership of its securities by two or more persons.

2. Indicate with appropriate symbols subsidiaries that file separate financial statements, subsidiaries included in consolidated financial statements, or unconsolidated subsidiaries included in group financial statements. Indicate for other subsidiaries why financial statements are not filed.

**Item 30. Indemnification**

State the general effect of any contract, arrangements or statute under which any director, officer, underwriter or affiliated person of the Fund is insured or indemnified against

any liability incurred in their official capacity, other than insurance provided by any director, officer, affiliated person, or underwriter for their own protection.

**Item 31. Business and Other Connections of Investment Adviser**

Describe any other business, profession, vocation or employment of a substantial nature that each investment adviser, and each director, officer or partner of the adviser, is or has been engaged within the last two fiscal years for his or her own account or in the capacity of director, officer, employee, partner, or trustee.

**Instructions**

1. Disclose the name and principal business address of any company for which a person listed above serves in the capacity of director, officer, employee, partner, or trustee, and the nature of the relationship.

2. The names of investment advisory clients need not be given in answering this Item.

**Item 32. Principal Underwriters**

(a) State the name of each investment company (other than the Fund) for which each principal underwriter currently distributing the Fund's securities also acts as a principal underwriter, depositor, or investment adviser.

(b) Provide the information required by the following table for each director, officer, or partner of each principal underwriter named in the response to Item 25:

| (1) | (2) | (3) |
|---|---|---|
| Name and Principal Business Address | Positions and Offices with Underwriter | Positions and Offices with Fund |

(c) Provide the information required by the following table for all commissions and other compensation received, directly or indirectly, from the Fund during the last fiscal

year by each principal underwriter who is not an affiliated person of the Fund or any affiliated person of an affiliated person:

| (1) | (2) | (3) | (4) | (5) |
|---|---|---|---|---|
| Name of Principal Underwriter | Net Underwriting Discounts and Commissions | Compensation on Redemptions and Repurchases | Brokerage Commissions | Other Compensation |

**Instructions**

1. Disclose the type of services rendered in consideration for the compensation listed under column (5).

2. Instruction 1 to Item 25(c) also applies to this Item.

**Item 33. Location of Accounts and Records**

State the name and address of each person maintaining physical possession of each account, book, or other document required to be maintained by section 31(a) [15 U.S.C. 80a-30(a)] and the rules under that section.

**Instructions**

1. The instructions to Item 20.4 of this form shall also apply to this item.

2. Information need not be provided for any service for which total payments of less than $5,000 were made during each of the last three fiscal years.

3. A Fund may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].

**Item 34. Management Services**

Provide a summary of the substantive provisions of any management-related service contract not discussed in Part A or B, disclosing the parties to the contract and the total amount paid and by whom for the Fund's last three fiscal years.

**Instructions**

1. The instructions to Item 19 also apply to this Item.

2. Exclude information about any service provided for payments totaling less than $5,000 during each of the last three fiscal years.

**Item 35. Undertakings**

In initial registration statements filed under the Securities Act, provide an undertaking to file an amendment to the registration statement with certified financial statements showing the initial capital received before accepting subscriptions from more than 25 persons if the Fund intends to raise its initial capital under section 14(a)(3) [15 U.S.C. 80a-14(a)(3)].

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Fund (certifies that it meets all of the requirement for effectiveness of this registration statement under rule 485(b) under the Securities Act and) has duly caused this registration statement to be signed on its behalf by the undersigned, duly authorized, in the city of _____, and State of _____, on the ___ day of _____, ____.

_____
Fund

By _____ _____
Signature Title

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

_____ _____ _____
Signature Title Date

20. Amend Form N-CSR (referenced in §§249.331 and 274.128) by:

a. In the third sentence of the second paragraph on the cover page of Form N-CSR, removing "450 Fifth Street, NW, Washington, DC 20549-0609" and adding in its place "100 F Street, NE, Washington, DC 20549-1090";

b. In the first sentence of General Instruction D, removing "Items 4, 5, and 12(a)(1)" adding in its place "Items 4, 5, and 17(a)I1)";

c. In the second sentence of Instruction (c) to Item 2(a), removing "Item 13(a)(1)" and adding in its place "Item 18(a)(1)";

d. Revising Item 6(a);

e. Redesignating Items 7 through 13 as Items 12 through 18, respectively;

f. Adding Items 7 through 11; and

g. In the first sentence of the instruction to paragraph (a)(2) of Item 13, removing "Item 13(a)(1)" and adding in its place "Item 18(a)(1)".

The additions read as follows:

**Note: The text of Form N-CSR does not, and these amendments will not, appear in the Code of Federal Regulations.**

**FORM N-CSR**

* * * * *

Item 6. Investments.

File Schedule I – Investments in securities of unaffiliated issuers as of the close of the reporting period as set forth in § 210.1212 of Regulation S-X [17 CFR 210.12-12], unless the schedule is included as part of the report to shareholders filed under Item 1 of this Form or is included in the financial statements filed under Item 7 of this Form";

* * * * *

Item 7. Financial Statements and Financial Highlights for Open-End Management Investment Companies.

(a) An open-end management investment company registered on Form N-1A [17 CFR 239.15A and 17 CFR 274.11A] must file its most recent annual or semi-annual financial statements required, and for the periods specified, by Regulation S-X.

(b) An open-end management investment company registered on Form N-1A [17 CFR 239.15A and 17 CFR 274.11A] must file the information required by Item 13 of Form N-1A.

*Instruction to paragraph (a) and (b).*

The financial statements and financial highlights filed under this Item must be audited and be accompanied by any associated accountant's report, as defined in rule 1-02(a) of Regulation S-X [17 CFR 210.1-02(a)], except that in the case of a report on this Form N-CSR as of the end of a fiscal half-year, the financial statements and financial highlights need not be audited.

Item 8. Changes in and Disagreements with Accountants for Open-End Management Investment Companies.

An open-end management investment company registered on Form N-1A [17 CFR 239.15A and 17 CFR 274.11A] must disclose the information concerning changes in and disagreements with accountants and on accounting and financial disclosure required by Item 304 of Regulation S-K [17 CFR 229.304].

Item 9. Proxy Disclosures for Open-End Management Investment Companies.

If any matter was submitted during the period covered by the report to a vote of shareholders of an open-end management investment company registered on Form N-1A [17 CFR 239.15A and 17 CFR 274.11A], through the solicitation of proxies or otherwise, the company must furnish the following information:

(1) The date of the meeting and whether it was an annual or special meeting.

(2) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.

(3) A brief description of each matter voted upon at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes

as to each such matter, including a separate tabulation with respect to each matter or nominee for office.

*Instruction*. The solicitation of any authorization or consent (other than a proxy to vote at a shareholders' meeting) with respect to any matter shall be deemed a submission of such matter to a vote of shareholders within the meaning of this Item.

Item 10. Remuneration Paid to Directors, Officers, and Others of Open-End Management Investment Companies.

An open-end management investment company registered on Form N-1A [17 CFR 239.15A and 17 CFR 274.11A] must disclose the aggregate remuneration paid by the company during the period covered by the report to:

(1) All directors and all members of any advisory board for regular compensation;

(2) Each director and each member of an advisory board for special compensation;

(3) All officers; and

(4) Each person of whom any officer or director of the Fund is an affiliated person.

Item 11. Statement Regarding Basis for Approval of Investment Advisory Contract.

If the board of directors approved any investment advisory contract during the Fund's most recent fiscal half- year, discuss in reasonable detail the material factors and the conclusions with respect thereto that formed the basis for the board's approval. Include the following in the discussion:

(1) Factors relating to both the board's selection of the investment adviser and approval of the advisory fee and any other amounts to be paid by the Fund under the contract. This would include, but not be limited to, a discussion of the nature, extent, and quality of the services to be provided by the investment adviser; the investment performance of the Fund

and the investment adviser; the costs of the services to be provided and profits to be realized by the investment adviser and its affiliates from the relationship with the Fund; the extent to which economies of scale would be realized as the Fund grows; and whether fee levels reflect these economies of scale for the benefit of Fund investors. Also indicate in the discussion whether the board relied upon comparisons of the services to be rendered and the amounts to be paid under the contract with those under other investment advisory contracts, such as contracts of the same and other investment advisers with other registered investment companies or other types of clients (*e.g.*, pension funds and other institutional investors). If the board relied upon such comparisons, describe the comparisons that were relied on and how they assisted the board in concluding that the contract should be approved; and

(2) If applicable, any benefits derived or to be derived by the investment adviser from the relationship with the Fund such as soft dollar arrangements by which brokers provide research to the Fund or its investment adviser in return for allocating Fund brokerage.

*Instructions*.

(1) Board approvals covered by this Item include both approvals of new investment advisory contracts and approvals of contract renewals. Investment advisory contracts covered by this Item include subadvisory contracts.

(2) Conclusory statements or a list of factors will not be considered sufficient disclosure. Relate the factors to the specific circumstances of the Fund and the investment advisory contract and state how the board evaluated each factor. For example, it is not sufficient to state that the board considered the amount of the investment advisory fee without stating what the board concluded about the amount of the fee and how that affected its decision to approve the contract.

(3) If any factor enumerated in paragraph (d)(6)(i) of this Item is not relevant to the board's evaluation of an investment advisory contract, note this and explain the reasons why that factor is not relevant;"

* * * * *

By the Commission.

Dated: August 5, 2020.

J. Matthew DeLesDernier
Assistant Secretary

**Note: The Appendices will not appear in the Code of Federal Regulations.**

**APPENDIX A**

**[Graphic: The XYZ Income Fund, XYZ Funds, Inc. Class A – XYZIA Class Z—XYZIZ]**

**Annual Shareholder Report** **January 31, 2020**

This annual shareholder report contains important information about the XYZ Income Fund for the period of February 1, 2019 to January 31, 2020 as well as certain changes to the Fund. You can find additional information at XYZfunds.com/XYZIFdocs or on the XYZ App. You can also request this information by contacting us at 1-800-XYZ-FUND or documents@xyzfunds.com.

**What were your Fund costs for the period?** *(based on a hypothetical $10,000 investment)*

| **Class** | **Beginning account value 2/1/2019** | **Total return before costs paid*** | **Costs paid†** | **Ending account value 1/31/2020** | **Costs paid as a percentage of your investment†** |
|---|---|---|---|---|---|
| **Class A** | $10,000 | +$723 | **-$78** | = $10,645 | **0.77%** |
| **Class Z** | $10,000 | +$723 | **-$53** | =$10,670 | **0.52%** |

* Certain Fund expenses, such as those associated with buying and selling fund investments, reduced your total return.

† The costs paid during the period do not reflect certain costs paid outside the Fund (such as purchase charges you might have paid if you bought shares of the Fund during the period).

**How did the Fund perform last year? What affected the Fund's performance?**

***Performance Highlights***

- XYZ Income Fund returned 6.45% for Class A and 6.70% for Class Z for the 12 months ended January 31, 2020. The Fund underperformed its benchmark (the QRS Aggregate Bond Index), which returned 7.72%. This underperformance is largely the result of our portfolio holding more interest-rate sensitive investments than our benchmark.
- Top contributors to performance:

- o long-term fixed interest rate investments because the Federal Reserve reduced interest rates during the period which increased long-term bond prices; and
- o investments in technology and financial services companies.

- Top detractors from performance:
  - o short duration investments (such as bank loans) and new purchases of fixed income instruments because of the lower interest rate environment; and
  - o investments in oil and telecommunication companies.

***Performance Attribution***

| Asset Class |
|---|
| **Top Contributors** |
| ↑ Corporate – High Yield |
| ↑ Corporate – High Quality |
| ↑ Mortgage Backed Securities |
| **Top Detractors** |
| ↓ Bank Loans |
| ↓ Asset Backed Securities |
| ↓ Treasury |

| Sector |
|---|
| **Top Contributors** |
| ↑ Technology |
| ↑ Financial Services |
| ↑ Health Care |
| **Top Detractors** |
| ↓ Energy |
| ↓ Telecommunications |
| ↓ Industrials |

**How did the Fund perform over the past 10 years?**
*Keep in mind that the Fund's past performance is not a good predictor of how the Fund will perform in the future.*

**Cumulative Performance:** February 1, 2010 through January 31, 2020
Initial Investment of $10,000

**[Graphic: Line Graph showing Class Z and Class A performance compared to performance of the QRS Aggregate Bond Index]**

**Average Annual Total Returns:**

| | 1 year | 5 years | 10 years |
|---|---|---|---|
| Class A (with purchase charge) | 1.21% | 4.32% | 5.29% |
| Class A (without purchase charge) | 6.45% | 5.36% | 5.86% |
| Class Z | 6.70% | 5.61% | 6.11% |
| QRS Aggregate Bond Fund | 7.72% | 5.21% | 4.25% |

Visit xyzfunds.com/XYZG or the XYZ app for more recent performance information.

**What are some key Fund statistics?** *(as of January 31, 2020)*

| | |
|---|---|
| Fund Size: | $789 mil. |
| Number of Investments: | 722 |
| Annual Portfolio Turnover: | 78% |
| Average Credit Quality:* | BB* |
| 30-Day SEC Yield:** | |
| • Class A | 4.28% |
| • Class Z | 4.53% |
| Effective Duration: | 1.4 years |
| Weighted Average Maturity: | 5.4 years |

* The Average Credit Quality is based on credit ratings provided by UVW Rating Inc.
** The 30-Day SEC Yield is a standardized calculation so you can compare yields across funds.

**What did the Fund invest in?** *(as of January 31, 2020)*

| Asset Class (% of net assets) | |
|---|---|
| Bank Loans | 52.6% |
| Corporate – High Quality | 14.3% |
| Corporate – High Yield | 11.4% |
| Mortgage Backed Securities | 7.1% |
| Treasury | 4.8% |
| Asset Backed Securities | 3.3% |
| Cash | 1.8% |
| Equity | 1.6% |
| Other | 3.1% |

| Credit Quality* (% of net assets) | |
|---|---|
| U.S. Government | 4.8% |
| AAA | 3.6% |
| AA | 5.8% |
| A | 16.7% |
| BBB | 20.4% |
| BB | 34.9% |
| B | 8.1% |
| CCC & Below | 3.6% |
| Unrated | 2.1% |

* Credit Quality is based on credit ratings provided by UVW Rating Inc., a nationally recognized statistical rating organization, because the XYZ Advisers (the Fund's manager) believes they have the broadest coverage of securities held by the Fund.

| Sector (% of net assets) |
|---|
| **[Graphic: Pie chart showing percentages of Fund's net assets invested in: Technology (23%), Consumer Discretionary (7%), Industrials (9%), Financial** |

| **Services (11%), Consumer Staples (4%), Health Care (12%), Telecommunications (9%), Energy (13%), Real Estate (6%), and Materials (6%)]** |
|---|

Visit www.xyzfunds.com/XYZG or the XYZ App for more recent holdings information.

**How has the Fund changed?**

Beginning June 1, 2020, the Fund is revising its Interest Rate Risk to include risks of very low or negative interest rates. Very low or negative interest rates may prevent the Fund from earning positive returns and increases the risk of rising interest rates, which may negatively impact the Fund's performance.

This is a summary of a planned change to the Fund's principal risk disclosure. For more complete information, you may review the Fund's next prospectus, which we expect to be available by June 1, 2020 at XYZfunds.com/XYZIFdocs or upon request at 1-800-XYZ-FUND or documents@xyzfunds.com.

**How does the Fund ensure that it has money available to pay me when I exit the Fund?**

The XYZ Loan Fund has investments that may not be as liquid as typical stocks and bonds.

| **Primary source of the Fund's liquidity risk:** | **How does the Fund manage its liquidity risk?** |
|---|---|
| The Fund invested significantly in bank loans. When a fund sells one of these loans, it may take a significant amount of time before the Fund receives the money from the sale. | • The Fund has a liquidity risk management program (LRMP) to ensure the Fund can pay you on time when you sell shares. |
| | • This program includes: (1) maintaining a minimum amount of highly liquid assets and limiting purchases of illiquid assets; (2) borrowing money and entering into expedited settlement agreements when needed; and (3) stress testing to see how the Fund would perform in stressed market conditions and, if necessary, modifying the Fund's investments in response to these tests. |
| | • At a meeting on December 5, 2019, the Fund's board of directors reviewed a report prepared by XZY Advisers (the LRMP administrator) that described the operation of the Fund's LRMP over the prior year and affirmed that the program effectively managed the fund's liquidity risk. |

**Where can I find additional information about the Fund?**

Additional information is available on the Fund's website, including its:

- prospectus
- financial information
- holdings
- proxy voting information
- description of UVW Rating Inc.'s credit ratings

**[Graphic: QR Code that takes the reader to XYZfunds.com/XYZGEdocs]**

## APPENDIX B

**Feedback Flier: Shareholder Reports**

We require mutual funds and exchange-traded funds (ETFs) to provide you with an annual and semi-annual *shareholder report*. These reports include key information about a fund, but they can often be long.

We are proposing changes to these reports to better highlight information that would be helpful to you as you monitor your investments. We would like to know what you think. Please take a few minutes to review this sample annual shareholder report and answer any or all of these questions. Thank you for your feedback!

**Questions**

1. Overall, would the sample shareholder report be useful in monitoring your fund investments? If not, how would you change it?
2. Rate the sections of the sample shareholder report. Please indicate whether you find each section *useful* or *not useful*. Please consider explaining your responses in the comments.

| Section | Useful | Not Useful | Why? |
|---|---|---|---|
| a. "What was your cost for the period?" | ☐ | ☐ | |

| | | | |
|---|---|---|---|
| b. "How did the Fund perform last year? What affected the Fund's performance?" | ☐ | ☐ | |
| c. "How did the Fund perform over the past 10 years?" | ☐ | ☐ | |
| d. "What are some key Fund statistics?" | ☐ | ☐ | |
| e. "What did the Fund invest in?" | ☐ | ☐ | |
| f. "How has the Fund changed?" | ☐ | ☐ | |
| g. "How does the Fund ensure that it has money available to pay me when I exit the Fund?" | ☐ | ☐ | |
| h. "Where can I find additional information about the Fund?" | ☐ | ☐ | |

3. The section titled "What was your cost for the period?" includes an example of what it costs to hold fund shares this year.

   a. Is the table clear?

      [ ] Yes [ ] No

b. Is it helpful to see “costs paid” both in dollars and as a percentage of your investment?

[ ] Yes [ ] No

c. Is it clear how the total returns of the fund minus the costs paid result in the ending account value?

[ ] Yes [ ] No

4. The section titled “How did the Fund perform last year? What affected the Fund’s performance?” includes narrative and graphic presentations.

a. There is a narrative description of the fund’s past performance in the “Performance Highlights” section. Does the narrative description help you understand the key drivers of fund performance?

[ ] Yes [ ] No

b. There is a graphic presentation of key drivers of the fund’s past performance in the “Performance Attribution” section. Does the graphic presentation help you understand why the fund performed as it did over the past year?

[ ] Yes [ ] No

c. There is a line graph representing the fund’s performance in dollars over the past 10 years. Does this graph help you understand how the fund performed over that time period?

[ ] Yes [ ] No

d. There is an "Average Total Returns Table" showing the fund's performance as a percentage over the past 1, 5, and 10 years. Does this table help you understand how the fund performed over those time periods?

[ ] Yes [ ] No

e. Is it helpful to see the fund's performance both in dollars and as a percentage?

[ ] Yes [ ] No

Is there any information that could be presented more clearly in the "How did the Fund perform last year?" section?

5. The sample shareholder report includes key statistics about the fund's size, number of investments, and annual portfolio turnover. Do these statistics provide meaningful information regarding the fund, for example, to help put the fund's performance and investments into context?

[ ] Yes [ ] No

6. The section titled "What did the Fund invest in?" includes charts describing the types of investments made by the fund. Do these charts help you understand how the fund is investing your money?

[ ] Yes [ ] No

7. The section titled "How has the Fund changed?" describes important changes to the fund within the last fiscal year. What types of changes are most important to you?

8. Is there any information in the sample shareholder report that is difficult to understand, confusing, too technical, or that could be presented more clearly?

9. Is there additional information that we should require in the shareholder report? This could include the fund's full financial statements, the results of any shareholder votes and/or how much the fund paid to directors, officers, and others. Is there any information in the sample shareholder report that should be highlighted more?

10. Under the proposal, in addition to the shareholder report, you also would have access to more information about the fund online (and delivered in paper on request). How likely would you be to seek more information on the following?

    a. The fund's full financial statements

    b. Key financial information over time

    c. Changes in and disagreements with accountants

    d. Results of any shareholder votes

    e. How much the fund paid to directors, officers and others

11. Is the length of the document: [ ] Too short [ ] Too long [ ] About right

12. How would you prefer to receive or read a document like the sample shareholder report?

    a. On paper

    b. In an email

    c. On a website

    d. A combination of paper and digital

    e. Other (explain)

13. Do you have any additional suggestions for improving the shareholder report?

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We will post your feedback on our website. Your submission will be posted without change; we do not redact or edit personal identifying information from submissions. You should only make submissions that you wish to make available publicly.

If you are interested in more information on the proposal, or want to provide feedback on additional questions, click here. Comments should be received on or before [[]], 2020.

Thank You!

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## Other Ways to Submit Your Feedback

You also can send us feedback in the following ways (include the file number S7-09-20 in your response):

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Print Your Responses and Mail

Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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Print a PDF of Your Responses and Email

Use the printer friendly page and select a PDF printer to create a file you can email to: rule-comments@sec.gov

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Print a Blank Copy of This Flier, Fill it Out, and Mail

Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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## APPENDIX C

**Feedback Flier: Tailored Fund Disclosure Framework to Highlight Key Information**

We are proposing a disclosure framework for mutual funds and exchange-traded funds ("funds") that would highlight key information for investors. The proposal includes:

- amendments to fund shareholder reporting requirements;
- an alternative approach to the current delivery of annual prospectus updates to fund investors; and
- amendments to the presentation of fee and principal risk disclosure in fund prospectuses.

In addition, we are proposing amendments to fund advertising rules to promote more transparent and balanced statements about investment costs. Those amendments would apply to all registered investment companies and business development companies.

More information about the proposal is available at https://www.sec.gov/rules/proposed/2020/34-89478.pdf.

We are particularly interested in learning what small funds think about the proposed disclosure framework. Hearing from small funds could help us learn how the proposed amendments and new rule would affect these funds. We would appreciate your feedback on any or all of the following questions.

**All of the following questions are optional, including any questions that ask about identifying information.**

***Please note that responses to these questions – including any other general identifying information you provide – will be made public.***

### Questions

**Item 1: General Identifying Information**

**Instructions:** At your option, you may include general identifying information that would help us contextualize your other feedback on the proposal. This information could include responses to the following questions, as well as any other general identifying information you would like to provide. Responses to these items—like responses to the other items on this Feedback Flier—will be made public.

i. How big is the fund in terms of net asset value? (This may be expressed as a range, for example, $40 million to $50 million.)

ii. Please include any additional general identifying information that you wish to provide, that could add context for your feedback on the proposal.

**Item 2: Current Shareholder Reporting and Prospectus Delivery Practices**

The fund currently must provide annual and semi-annual shareholder reports in paper, unless the shareholder has elected electronic delivery.

i. Please provide an estimate of approximately how much it currently costs the fund annually to prepare and transmit annual shareholder reports. Please provide a dollar range of those costs and expenses.

ii. Please provide an estimate of approximately how much it currently costs the fund annually to prepare and transmit semi-annual shareholder reports. Please provide a dollar range of those costs and expenses.

iii. Rule 30e-3 under the Investment Company Act of 1940 currently provides an optional "notice and access" method to allow funds to satisfy their obligations to transmit shareholder reports, beginning on January 1, 2021. Do you anticipate that the fund will rely on the rule? [yes/no]

iv. Please provide any other information that you think could be helpful regarding the costs and expenses associated with current requirements to prepare and transmit annual and semi-annual shareholder reports.

**Item 3: Principal Elements of the Proposed New Disclosure Framework**

Proposed New Requirements for Funds' Annual and Semi-Annual Shareholder Reports

i. We are proposing that shareholder reports include the content described below. Please indicate whether the content should remain in the shareholder report, as proposed, whether the content should be disclosed elsewhere, or whether the content should be eliminated. If you think the content should be disclosed elsewhere, please explain.

**Proposed Shareholder Reports**

| **Description** | **Should the content remain in fund shareholder reports, as proposed? (yes/no)** | **Please include any comments that you would like to share about either the usefulness of the proposed content, including whether the content should be eliminated, or the location of the proposed content.**<br><br>**If the content should be disclosed elsewhere, please explain.** |
|---|---|---|
| Expense Example | | |
| Management's Discussion of Fund Performance (required in | | |

| | | |
|---|---|---|
| Annual Report; optional in Semi-Annual Report) | | |
| Fund Statistics (fund's size, number of investments, and annual portfolio turnover) | | |
| Graphical Representation of Holdings | | |
| Material Fund Changes (required in Annual Report; optional in Semi-Annual Report) | | |
| Statement Regarding Liquidity Risk Management Program | | |

ii. Is there content that should be added to funds' shareholder reports that is not included in the proposal (yes/no)?

If so, what content should be added to funds' shareholder reports?

iii. Approximately how much do you think it would cost the fund to transition to the new requirements for preparing and transmitting annual and semi-annual shareholder reports under the proposal? Please provide a dollar range of those costs and expenses.

iv. Approximately how much do you think it would cost the fund on an ongoing annual basis to prepare and transmit annual shareholder reports under the proposal? Please provide a dollar range of those costs and expenses.

v. Approximately how much do you think it would cost the fund on an ongoing annual basis to prepare and transmit semi-annual shareholder reports under the proposal? Please provide a dollar range of those costs and expenses.

<u>Proposed New Form N-CSR and Website Availability Requirements</u>

i. We are proposing that the fund no longer include the content, described in the chart below, in its annual and semi-annual shareholder reports. Instead, the fund would

include that content in its filings on Form N-CSR. Please indicate whether the content should be disclosed in the fund's filings on Form N-CSR, as proposed, whether the content should remain in the fund's annual and semi-annual shareholder reports, or whether the content should be eliminated. If you think the content should be disclosed elsewhere, please explain.

**Proposed New Content for Form N-CSR**

| **Description** | **Should the content be disclosed in filings on Form N-CSR, as proposed?**<br><br>**(yes/no)** | **Should the content remain in shareholder reports?**<br><br>**(yes/no)** | **Should the content be disclosed elsewhere or eliminated?**<br><br>**If the content should be disclosed elsewhere, please explain.** |
|---|---|---|---|
| Financial statements for funds | | | |
| Financial highlights for funds | | | |
| Remuneration paid to directors, officers and others of funds | | | |
| Changes in and disagreement with accountants for funds | | | |
| Matters submitted to fund shareholders for a vote | | | |
| Statement regarding the basis for the board's approval of investment advisory contract | | | |

ii. Is there content that a fund should have to disclose on Form N-CSR that is not included in the proposal (yes/no)?

If so, what content requirement(s) should be added to Form N-CSR?

iii. Approximately how much do you think it would cost the fund to transition to the proposed requirements to file certain new information on Form N-CSR instead of including this information in its annual and/or semi-annual shareholder reports? Please provide a dollar range of those costs and expenses.

iv. Approximately how much do you think it would cost the fund on an ongoing annual basis to comply with the proposed new Form N-CSR content requirements? Please provide a dollar range of those costs and expenses.

v. We are also proposing to require that a fund would have to make available all of new Form N-CSR content (described in the chart above), as well as the fund's complete portfolio holdings as of the close of the fund's most recent first and third fiscal quarters, on a website. In addition, we are proposing that the fund deliver such materials to investors upon request, free of charge.

a. Approximately how much do you think it would cost the fund to transition to the proposed new website availability requirements? Please provide a dollar range of those costs and expenses.

b. Approximately how much do you think it would cost the fund on an ongoing annual basis to comply with the proposed new website availability requirements? Please provide a dollar range of those costs and expenses.

Proposed New Treatment of Annual Prospectus Updates

i. Please provide an estimate of approximately how much it currently costs the fund on an annual basis to provide annual prospectus updates to shareholders. Please provide a dollar range of those costs and expenses.

ii. Reliance on proposed rule 498B—under which the fund would send existing investors certain notices in lieu of annual prospectus updates—would be optional. Do you think that the fund would rely on proposed rule 498B? [yes/no]

If you think the fund would rely on proposed rule 498B, approximately how much do you think the following would cost the fund? Please provide a dollar range of those costs and expenses:

a. The cost to the fund of transitioning to proposed rule 498B;

b. The ongoing costs on an annual basis for the fund to comply with proposed rule 498B (excluding transmitting notices of material changes to shareholders); and

c. The ongoing costs on an annual basis for the fund to transmit notices of material changes to shareholders, if any.

Proposed Changes to Rule 30e-3: Open-End Funds Could No Longer Use "Notice and Access" Model to Transmit Shareholder Reports

i. Beginning on January 1, 2021, a fund currently would be permitted to transmit shareholder reports under rule 30e-3, provided certain conditions are met, such as including a required statement on each prospectus. However, the proposal would no longer permit open-end funds to rely on rule 30e-3 to transmit shareholder reports. Approximately how much do you think it would cost the fund to transition

away from the rule 30e-3 "notice and access" model? Please provide a dollar range of those costs and expenses.

Proposed Prospectus Disclosure Changes: Fund Fees and Risks

i. Approximately what do you think it would cost the fund to transition to the proposed new requirements for prospectus disclosure of fund fees and expenses, and fund principal risks? Please provide a dollar range of those costs and expenses.

ii. Approximately what do you think it would cost the fund on an ongoing annual basis to comply with the proposed new requirements for prospectus disclosure of fund fees and expenses, and fund principal risks? Please provide a dollar range of those costs and expenses.

iii. Should we modify any of the proposed new requirements for prospectus disclosure of fund fees and expenses, and fund principal risks, and if so, how?

iv. Are there additional ways to improve how funds disclose their fees and expenses to represent more accurately the full costs associated with a fund investment and to help investors better understand their investment costs?

Proposed Amendments to Fund Advertising Rules

i. Does the fund currently include fee and expense information in its advertisements and other marketing materials? [yes/no]

ii. We are proposing to amend the advertising rules to require that investment company fees and expenses in advertisements and supplemental sales literature be consistent with relevant prospectus fee table presentations and be reasonably current. The proposed amendments also address current representations of fund fees and expenses that could be materially misleading.

   Approximately how much do you think it would cost the fund to comply with the proposed amendments to the investment company advertising rules (please provide a dollar range)?

iii. Are there additional ways that we could improve the fee and expense presentations in fund advertisements and supplemental sales literature?

**Item 4: Other Feedback**
**Instructions:** Please provide any additional suggestions or comments you have about our fund disclosure proposal.

In addition, please provide any suggestions or comments about what the Commission can do to encourage the use of technology in fund disclosure.

We will post your feedback on our website. Your submission will be posted without change; we do not redact or edit personal identifying information from submissions. You should only make submissions that you wish to make available publicly.

If you are interested in more information on the proposal, or want to provide feedback on additional questions, click here. Comments should be received on or before ____ ___, 2020.

***Thank you!***

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## Other Ways to Submit Your Feedback

You also can send us feedback in the following ways (include the file number S7-09-20 in your response):

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Print Your Responses and Mail

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Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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Print a PDF of Your Responses and Email

Use the printer friendly page and select a PDF printer to create a file you can email to: rule-comments@sec.gov

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[FR Doc. 2020-17449 Filed: 11/4/2020 8:45 am; Publication Date: 11/5/2020]