



SEC Mutual Fund Initiatives

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Prepared by the SEC's Office of Legislative Affairs

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COMMISSION ACTIONS:

Amendments to Rules Governing Pricing of Mutual Fund Shares – Late Trading

On **December 3, 2003**, the Commission proposed a rule requiring that fund orders be received by 4:00 p.m. Specifically, this proposal would require that an order to purchase or redeem mutual fund shares be received by the mutual fund — or its primary transfer agent or a registered securities clearing agency — by the time that the fund establishes for calculating its net asset value in order to receive that day's price (typically 4:00 p.m. for most funds). This rule would effectively eliminate the potential for late trading through intermediaries that sell fund shares. Comment period ended on February 6, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2003-168.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/ic-26288.htm>

Disclosure Regarding Market Timing and Selective Disclosure of Portfolio Holdings

On **December 3, 2003**, the Commission proposed enhanced disclosure requirements for mutual funds. Funds would be required to disclose: (1) market timing policies and procedures, (2) practices regarding "fair valuation" of their portfolio securities and (3) policies and procedures with respect to the disclosure of their portfolio holdings. This type of explicit disclosure will shed light on market timing and selective disclosure of portfolio holdings so that investors can better understand the fund's policies and how funds manage the risks in these areas. Comment period ended on February 6, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2003-168.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/33-8343.htm>

Compliance Programs of Investment Companies and Investment Advisers

On **December 3, 2003**, the Commission voted to adopt rules that will require funds and advisers to: (1) have compliance policies and procedures, (2) annually review them and (3) designate a chief compliance officer who, for funds, must report to the board of

directors. Designated compliance officers and written policies and procedures will have several benefits, including having a designated person charged with fund compliance who must answer to, and be accountable to, the fund's board of directors, thereby enhancing compliance oversight by directors, as well as allowing the SEC's examination staff to review the reports made to the board.

- *Press Release:* <http://www.sec.gov/news/press/2003-168.htm>
- *Final Rule:* <http://www.sec.gov/rules/final/ia-2204.htm>

Enhanced Disclosure of Breakpoint Discounts by Mutual Funds

On **December 17, 2003**, the Commission proposed amendments that would require a mutual fund to provide enhanced disclosure regarding breakpoint discounts on front-end sales loads. This enhanced disclosure will assist investors in understanding the breakpoint opportunities available to them. Comment period ended on February 13, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2003-173.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/33-8347.htm>

Concept Release on Mutual Fund Transaction Costs

On **December 17, 2003**, the Commission issued a concept release on mutual fund transaction costs. The release seeks public comment on whether mutual funds should be required to quantify and disclose to investors the amount of transaction costs they incur; include transaction costs in their expense ratios and fee tables; provide other measures or additional disclosure that would indicate the level of a fund's transaction costs; or some combination of the above. Comment period ended on February 23, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2003-173.htm>
- *Concept Release:* <http://www.sec.gov/rules/concept/33-8349.htm>

New Investment Company Governance Requirements

On **January 14, 2004**, the Commission voted to propose amendments to its rules to enhance fund boards' independence and effectiveness and to improve their ability to protect the interests of the funds and fund shareholders they serve. The proposed fund governance standards include: (1) Independent Composition of the Board, (2) Independent Chairman of the Board, (3) Annual Self-Assessment of Board, (4) Separate Meetings of Independent Directors, (5) Independent Director Staff and (6) Preservation of Documents regarding Reasonableness of Fees. Comment period ends on March 10, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2004-5.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/ic-26323.htm>

Investment Adviser Codes of Ethics and Insider Reporting of Fund Trades

On **January 14, 2004**, the Commission voted to propose new rules and related rule amendments under the Investment Advisers Act of 1940. The new rule would require registered investment advisers to adopt and enforce codes of ethics applicable to their

supervised persons and, for advisers to funds, to require insiders to report their trades in fund shares. Comment period ends on March 15, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2004-5.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/ia-2209.htm>

Confirmation Requirements and Point of Sale Disclosure Requirements for Mutual Fund Transactions

On **January 14, 2004**, the Commission voted to propose new rules that are designed to enhance the information that broker-dealers provide to their customers in connection with transactions in certain types of securities. The two new rules would require broker-dealers to provide their customers with targeted information regarding the costs and conflicts of interest that arise from the distribution of mutual fund shares. The rules would require disclosure at two key times - first at the point of sale, and second at the completion of a transaction in the transaction confirmation. Comment period ends on April 12, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2004-5.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/33-8358.htm>
- *See also:* Attachments 1-5, Form Examples
http://www.sec.gov/rules/proposed/33-8358_attach.pdf

Enhanced Mutual Fund Expense and Portfolio Disclosure

On **February 11, 2004**, the Commission adopted several amendments to its rules and forms that are intended to improve significantly the periodic disclosure that mutual funds and other registered management investment companies provide to their shareholders about their costs, portfolio investments, and performance. The amendments included the following: Enhanced Mutual Fund Expense Disclosure in Shareholder Reports; Quarterly Disclosure of Fund Portfolio Holdings; Use of Summary Portfolio Schedule; Exemption of Money Market Funds from Portfolio Schedule Delivery Requirements; Tabular or Graphic Presentation of Portfolio Holdings in Shareholder Reports; and Management's Discussion of Fund Performance. The new requirements will apply to shareholder reports and quarterly portfolio disclosure for reporting periods ending on or after 120 days following publication in the *Federal Register*.

- *Press Release:* <http://www.sec.gov/news/press/2004-16.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/ic-25870.htm>

Improved Disclosure of Board Approval of Investment Advisory Contracts

On **February 11, 2004**, the Commission proposed amendments to its rules and forms that would improve the disclosure that mutual funds and other registered management investment companies provide to their shareholders regarding the reasons for the fund board's approval of an investment advisory contract. The proposals are intended to encourage fund boards to consider investment advisory contracts more carefully and to encourage investors to consider more carefully the costs and value of the services rendered by the fund's investment adviser. The proposals would require fund

shareholder reports to discuss, in reasonable detail, the material factors and the conclusions with respect to these factors that formed the basis for the board of directors' approval of any investment advisory contract. Comment period ends on April 26, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2004-16.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/33-8364.htm>

Prohibition on the Use of Brokerage Commissions to Finance Distribution

On **February 11, 2004**, the Commission proposed an amendment to rule 12b-1 under the Investment Company Act of 1940 that would prohibit open-end investment companies (mutual funds) from directing commissions from their portfolio brokerage transactions to broker-dealers to compensate them for distributing fund shares. The Commission also is requesting comment on the need for additional changes to rule 12b-1 to address other issues that have arisen under the rule. Comment period ends on May 10, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2004-16.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/ic-26356.htm>

Mandatory Redemption Fees for Mutual Fund Securities

On **February 25, 2004**, the Commission voted to propose new Rule 22c-2 under the Investment Company Act of 1940. This rule would require all mutual funds to impose a 2 percent fee on the redemption proceeds of shares redeemed within 5 days of their purchase. The rule is designed to require short-term shareholders to reimburse the fund for the direct and indirect costs that the fund pays to redeem these investors' shares. In the past, these costs generally have been borne by the fund and its long-term shareholders. The rule would supplement other measures the Commission has recently taken to address short-term trading, including abusive market timing activity.

- *Press Release:* <http://www.sec.gov/news/press/2004-23.htm>