



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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Section	7
February 15, 1996	
Rule	
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Dear Registrant:

This letter is intended to assist investment company registrants in preparing disclosure filings. These comments represent the views of the staff of the Division of Investment Management and are not necessarily those of the Securities and Exchange Commission. The comments in this letter apply to filings made with the Division, including filings on Forms N-1A, N-2, N-14 and S-6.

This letter covers disclosure and procedural developments since February 3, 1995 when the staff issued its last letter to registrants. Accounting-related matters of interest to registrants and their independent public accountants can be found in a letter dated November 2, 1995 from Lawrence A. Friend, Chief Accountant of the Division, addressed to Chief Financial Officers. General guidance to variable annuity, variable life, and other insurance company investment contract registrants can be found in a letter dated November 3, 1995 from Brenda D. Sneed, Assistant Director, Office of Insurance Products.

**I. PROSPECTUS IMPROVEMENT**

In past letters to registrants, the staff has urged registrants to improve fund prospectuses by making disclosure more concise, direct, and understandable. Some have responded by producing prospectuses that are significantly more user-friendly and readable. We continue to encourage registrants to review their prospectuses with the goal of eliminating unnecessary legal terms, jargon, and verbose disclosure. In this regard, the staff directs registrants' attention to General Instruction G to Form N-1A and General Instruction for Part A: The Prospectus of Form N-2. The information in the prospectus should be clear, concise, and understandable; avoid the use of technical or legal terms, complex language, or excessive detail.

The staff has assisted, and will continue to assist, registrants who take the initiative to review, rewrite, and improve fund prospectuses. Registrants are encouraged to submit drafts of revised prototype prospectuses for review by the staff prior to filing.

**II. DISCLOSURE COMMENTS**

**A. Multiple Class Funds**

The Commission has adopted Rule 18f-3 under the Investment Company Act of 1940 (the "1940 Act") which permits open-end investment companies to issue multiple classes of voting stock representing interests in the same portfolio. See Investment Company Act Release No. 20915 (February 23, 1995). In connection with Rule 18f-3, the Commission adopted amendments to Form N-1A designed to improve disclosure for multiple class funds. The staff has observed, however, that the disclosure of mutual funds offering multiple classes in the same prospectus is, in some cases, needlessly long and complex, making the

differences between classes difficult to understand. Registrants are encouraged to simplify the description of multiple class arrangements.

In addition, Item 24(b) of Form N-1A requires copies of any plan entered into by the registrant under Rule 18f-3, including any implementing agreement and plan amendments, to be filed as exhibits to the registration statement. A post-effective amendment for the purpose of filing exhibits and agreements pertaining to the Rule 18f-3 plan may be filed under Rule 485(b) under the Securities Act of 1933 (the "1933 Act"). <sup>1/</sup>

#### **B. Registration Statements Filed on Form N-14**

Item 16(12) of Form N-14 requires registrants filing registration statements on Form N-14 to file as an exhibit to the registration statement, or incorporate by reference, an opinion of counsel or a copy of an Internal Revenue Service ("IRS") ruling supporting the tax matters discussed in the registration statement. Opinions or rulings may be filed either in the original filing or at effectiveness of the registration statement.

The staff recognizes, however, that the closing of a reorganization usually is contingent on the registrant receiving the tax opinion or IRS ruling; therefore, the closing of the transaction itself is satisfactory evidence that the tax opinion or ruling was obtained. In such a circumstance, the staff will not object if a registrant files the tax opinion or IRS ruling after the reorganization, if the registrant includes an undertaking in the registration statement to file, by post-effective amendment, an opinion of counsel or a copy of an IRS ruling supporting the tax consequences of the proposed reorganization within a reasonable time after receipt of such opinion or ruling. Such post-effective amendment may be filed under Rule 485(b) under the 1933 Act.

#### **C. Closed-End Funds' Tender Offers**

Closed-end funds often trade at a discount from net asset value. Some closed-end funds disclose in their prospectuses that, in order to minimize or eliminate the discount, they will offer to purchase their shares through tender offers or propose to shareholders at a later date conversions to open-end status.

Fund boards typically have the discretion to decide whether funds should purchase their shares or propose conversions, and the decisions generally are based on circumstances existing at the time the decisions are made. Nevertheless, some prospectuses highlight the corporate actions to be taken but tend to minimize their conditional nature. For example, a number of prospectus summaries state the funds' intention to conduct tender offers or propose conversions without mentioning any conditions or qualifying circumstances. Often, language appearing much later in the prospectuses qualifies these commitments and states that they may be subject to a variety of conditions.

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<sup>1/</sup> When the Commission adopted amendments to Rule 485 in 1994, it delegated authority to the Division to determine appropriate uses of Rule 485(b) in contexts other than those specifically enumerated in the rule. This comment and Comment II.B dealing with Form N-14 filings authorize registrants to file post-effective amendments under Rule 485(b) in accordance with that authority. See Investment Company Act Release No. 20486 (Aug. 17, 1994). Registrants availing themselves of this procedure should ensure that their post-effective amendments otherwise meet the conditions for filing under Rule 485(b).

In describing the commitments to conduct tender offers or propose conversions, registrants need to convey the possibility that the corporate actions may not occur. Discussions of conditions or qualifying circumstances should not be lengthy or overly technical. Funds should also review any advertising or sales literature referring to commitments to determine if they may be misleading to potential investors.

### **III. PROXIES**

#### **A. Proxy Disclosure Requirements**

The staff has responded to a number of interpretive questions and reviewed proxy statements filed under the revised disclosure requirements for fund proxy statements ("the revised rules"), which became effective in January, 1995. Generally, the quality of disclosure under the new rules has been good and substantially improves disclosure that would have been required under the old rules. We believe, however, that the following disclosure issues require clarification.

##### **1. Material Factors Discussion**

Items 22(c)(11) (approval of investment advisory contract) and 22(d)(4) (approval of Rule 12b-1 plan) of Schedule 14A require a discussion of the material factors on which the board of directors has based its decision to recommend an investment advisory contract or Rule 12b-1 plan for shareholder approval. While the revised rules do not dictate the form or content of the material factors discussion, the instructions to the Items state that a mere list of the factors considered by the board of directors is not sufficient disclosure. The staff has given, and will continue to give, comments on material factors discussions that do not include a clear, concise explanation of the bases for the directors' recommendation to shareholders (whether for a new contract or the renewal of an existing contract). The discussion should include the material factors underlying the recommendation, the relative importance or weight of each factor, and how each factor relates to the board's recommendation. The discussion also is required to reference, if appropriate, whether there are soft dollar arrangements that benefit the investment adviser. Registrants should avoid generalized discussions of brokerage arrangements that do not directly address the specific soft dollar arrangements that benefit their investment advisers.

##### **2. Compensation Disclosure**

Item 22(b)(6) in Schedule 14A requires proxy statements to include a table disclosing the amount of compensation paid to fund directors by a fund and, if applicable, the fund complex. The same compensation disclosure is required in registration statements. The staff's review of proxy statements (and registration statements) filed under the revised rules indicates that:

- In some cases, variation from the prescribed format may be necessary to present the information in an understandable manner. Funds may present information in a different tabular format if it will make the compensation information clearer. For example, a fund may vary the format of the compensation table to accommodate a proxy statement that solicits votes from shareholders of more than one fund. However, all compensation information must be provided in the table (or the footnotes to the table) in the section of the proxy statement discussing the election of directors.

- No entry is required in the compensation table if a director did not receive compensation for service as a director during the most recent fiscal period. In addition, if there is no reportable information for a particular required category (for example, pension or retirement benefits accrued), funds may omit that column from the compensation table.

### **B. Electronic Proxy Voting**

Rule 14a-4(b)(1) of the proxy rules requires registrants to provide to shareholders, in the form of proxy, a means of conferring authority to vote on specific matters. The staff has not objected to proxy solicitation material containing a supplemental method for shareholders to vote electronically by using a telephonic or other electronic voting system, if specifically permitted by applicable state law. In these cases, the registrant:

- a) adopted a reasonable means of verifying the authenticity of proxies transmitted by telephone or otherwise (such as including a personal identification number on the proxy card);
- b) provided the shareholder an opportunity to validate an electronic vote to ensure that the vote was received correctly;
- c) determined that the supplemental electronic voting procedures provided for in the proxy are permissible under applicable state law; and
- d) retained voting records, including the date of receipt of voting instructions and the name of the recipient.

### **C. Voting Results**

Registrants are reminded that the results of a vote of shareholders must be furnished in the next annual or semi-annual shareholder report following a shareholder meeting or other shareholder vote. See Rule 30d-1(b) under the 1940 Act.

## **IV. FILING PROCEDURES**

### **A. EDGAR Implementation and Filing Procedures**

Investment company registrants must file electronically via EDGAR (i) all registration statements, including amendments, under the 1933 Act and/or the 1940 Act; (ii) all proxy materials required to be filed with the Commission (except those for which confidential treatment is requested); (iii) all reports, including reports on Form N-SAR and annual and semi-annual reports to shareholders required to be filed with the Commission under Section 30 of the 1940 Act; and (iv) all other reports, forms, and schedules required to be filed by or with respect to investment companies under the Securities Exchange Act of

1934 (except Form 13F). 2/ All correspondence related to electronic filings also must be submitted electronically.

### 1. Financial Data Schedules

Registrants are required to furnish Financial Data Schedules as exhibits to electronic filings, including registration statements on Forms S-6, N-1, N-1A, N-2, N-3, N-4, and N-5; Form N-SAR; and certain proxy materials (as specified in Item 22(a)(4) of Schedule 14A). 3/ The specific EDGAR tagging requirements for investment company Financial Data Schedules are set forth in Appendix E of the EDGAR Filer Manual. 4/ Appendix E should be read in conjunction with specific investment company form requirements and Rule 483(e) under the 1933 Act which set forth the requirements for the schedules.

### 2. Paper Copies

Registrants are reminded that Rule 902(g) of Regulation S-T requires electronic filers to provide a paper copy of their first electronic filing. This paper copy is not an official filing, and the legend required by Rule 902(g) should be placed on the cover page to indicate that fact. No signatures are required. A computer printout of an EDGAR filing is acceptable, but the confidential access codes must be removed or blanked out. The copy should be received by the Commission no later than six business days after the electronic filing and may be mailed to the address set forth in Rule 902(g).

### 3. Cover Letters

Where appropriate, cover letters relating to a filing should be included as part of the electronic submission of the relevant filing. Cover letters provide information helpful to the review of the filing, including requests for selective review. 5/ Cover letters always should include a typed letterhead, since letters that are "EDGARized" will not include the letterhead printed on firm or company stationery. Also, if they are not included in the letterhead, the name, address, and telephone number of the registrant's contact person(s) should be provided in the text of the letter. See Comment I.A of the February 22, 1993 Letter to

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2/ See Rules 101, 902, and 903 of Regulation S-T (17 CFR Part 232.101, 902 and 903) and Release 4.40 of the EDGAR Filer Manual (December 1995) and the Appendix thereto (the "EDGAR Filer Manual").

3/ For circumstances under which this requirement would not be applicable, see Comment I.D of the Letter to Registrants dated February 3, 1995.

4/ See, in particular, pages E-2 and E-3 ("*Filings Processed by the Division of Investment Management: Investment Company Forms*") and pages E-43 through E-48 ("*Investment Companies, Article 6 of Regulation S-X*"). The EDGAR document header tag for a document containing a Financial Data Schedule will always begin with the characters "EX-27" regardless of the item number of this exhibit within the relevant registration statement. See pages C-8 and C-9 of Appendix C of the EDGAR Filer Manual.

5/ Registrants should note that cover letters submitted under document type "COVER" and correspondence submitted under submission and/or document type "CORRESP" are treated as non-public and are not disseminated. See the EDGAR Filer Manual, Section E, paragraph 4.12 ("*Non-Public and Confidential Information*").

Registrants for other types of information that may be appropriately included in cover letters.

#### 4. Extending Effectiveness of Rule 485(a) Filings

Registrants filing post-effective amendments under Rule 485(b) under the 1933 Act to extend the effective date of a post-effective amendment filed pursuant to Rule 485(a) should (i) submit such filings under EDGAR submission type "485BPOS," "485B24E," or "485B24F," as appropriate; and (ii) following acceptance of the submission, notify the staff by correspondence ("CORRESP" submission) of the Rule 485(b) filing. These procedures will be superseded when new EDGAR submission types designed specifically for this purpose become available.

#### 5. Avoiding Common Problems

Registrants can avoid many common problems associated with the process of making electronic filings with the Commission by (i) including the correct "CIK" number when making check or wire payment of filing fees through Mellon Bank, in accordance with Rule 3a of the Commission's Informal and Other Procedures, and (ii) establishing and using a CompuServe mailbox to receive and carefully review Commission notices of filing acceptance or suspension. These notices provide information about the type of filing (live, test, or confirming copy), the date and time of receipt, error messages for suspended filings, and the official filing dates assigned to accepted live filings.

#### 6. Facing Sheets

Registrants are reminded to check the appropriate box(es) on the facing sheet of amendments filed under Rule 485 and to make sure that all submission and document header tags corresponding to those boxes are prepared correctly.

#### 7. EDGAR Contacts

Apart from questions in the specific areas enumerated below, registrants generally should direct their EDGAR questions to their regular processing branches or reviewers, who will provide the answers or, in appropriate cases, refer them to the EDGAR Branch. Registrants new to the EDGAR filing process, however, should direct their questions to the EDGAR Branch at 202-942-0591. In addition, questions concerning Regulation S-T and related EDGAR rules provisions may be directed to either Anthony A. Vertuno at 202-942-0591 or Ruth A. Sanders at 202-942-0633.

Financial Data Schedules	Anthony Evangelista Asst. Chief Accountant	202-942-0636
Rule 24f-2 Notices	Carolyn Miller Senior Financial Analyst	202-942-0510
Form N-SAR	N-SAR Inquiry Line	202-942-0513

#### B. Registering Additional Shares under Rule 24f-2

The Commission recently amended Rule 24f-2 under the 1940 Act to provide that a Rule 24f-2 Notice is deemed timely filed if the fund establishes that it transmitted the notice

to a third party company or governmental entity that guaranteed delivery no later than the filing deadline. <sup>6/</sup> By providing a means for funds to ensure that they are not penalized for the failure of a third party to timely file their Rule 24f-2 Notices, the Commission expected the amendments to eliminate the need for funds to seek exemptions from the requirements of Rule 24f-2.

Registrants are reminded that they must use new Form 24F-2 for filing Rule 24f-2 Notices for periods ending on or after October 10, 1995. Also, as provided in amended Rule 24f-2 and new Form 24F-2, registrants calculating the registration fee due by deducting the amount of shares redeemed during the fiscal year from the amount of shares sold during the period must include shares issued in connection with dividend reinvestment plans when determining the amount of shares sold and redeemed.

### C. De-Registering Funds

The staff has noted a number of cases in which funds that have transferred all of their assets in a reorganization subsequently failed to de-register. A registrant whose assets have been transferred to another fund and which ceases operations as an investment company must file an application pursuant to Section 8(f) and Rule 8f-1 for an order declaring that the company has ceased to be an investment company. Applications should be filed on Form N-8F within a reasonable time after the reorganization. Registrants also are reminded to provide, by establishing a reserve account or otherwise, for the payment of costs of the Form N-8F application proceedings and for the preparation and filing of a final N-SAR on behalf of a fund that has ceased operations.

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This letter is intended to assist registrants in preparing filings in 1996; it is not intended to replace the disclosure comment process. You should direct any questions about specific company filings to the staff member responsible for reviewing that company's documents.

Sincerely,



Carolyn B. Lewis  
Assistant Director



Barry D. Miller  
Assistant Director

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<sup>6/</sup> Investment Company Act Release No. 21332 (Sept. 1, 1995).