



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.

Final Rule adopted by the Commission on April 13, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2003-168.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/33-8343.htm>
- *Final Rule:* <http://www.sec.gov/rules/final/33-8408.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.

Final Rule adopted by the Commission on May 26, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2003-173.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/33-8347.htm>
- *Final Rule:* <http://www.sec.gov/rules/final/33-8427.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 ended on March 10, 2004. **Final Rule adopted by the Commission on June 23, 2004.**

- *Press Release:* <http://www.sec.gov/news/press/2004-5.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/ic-26323.htm>
- *Final Rule:* <http://www.sec.gov/rules/final/ic-26520.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 ended on March 15, 2004. **Final Rule adopted by the Commission on May 26, 2004.**

- *Press Release:* <http://www.sec.gov/news/press/2004-5.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/ia-2209.htm>
- *Final Rule:* <http://www.sec.gov/rules/final/ia-2256.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 ended on April 12, 2004. On **March 1, 2005**, the Commission announced that it has reopened the comment period for and requested supplemental comments on the proposed rule. The supplemental release reflects issues raised by commenters to our initial proposal, including investor feedback from in-depth testing of prototype disclosure forms.

- *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
- *Supplemental Release:* <http://www.sec.gov/rules/proposed/33-8544.pdf>
- *See also:* Supplemental Release Attachment, Form Examples
<http://www.sec.gov/rules/proposed/33-8544attach.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>
- *Final Rule:* <http://www.sec.gov/rules/final/33-8393.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 ended on April 26, 2004.

Final Rule adopted by the Commission on June 23, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2004-16.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/33-8364.htm>
- *Final Rule:* <http://www.sec.gov/rules/final/33-8433.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 ended on May 10, 2004. **Final**

Rule adopted by the Commission on August 18, 2004.

- *Press Release:* <http://www.sec.gov/news/press/2004-16.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/ic-26356.htm>
- *Final Rule:* <http://www.sec.gov/rules/final/ic-26591.htm>

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. Comment period ended on May 10, 2004. On **March 3, 2005**, the Commission voted to adopt new Rule 22c-2 under the Investment Company Act of 1940. The rule will require the boards of mutual funds that redeem shares within 7 days to adopt a redemption fee of no more

than 2 percent of the amount of the shares redeemed or determine that a redemption fee is not necessary or appropriate for the fund. **Final Rule adopted by the Commission on March 3, 2005.**

- *Press Release:* <http://www.sec.gov/news/press/2004-23.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/ic-26375a.htm>

Disclosure Regarding Portfolio Managers of Registered Management Investment Companies

On **March 11, 2004**, the Commission voted to propose amendments to its forms that are designed to improve the disclosure that mutual funds and other registered management investment companies provide about their portfolio managers. These proposals are intended to provide greater transparency regarding portfolio managers, their incentives in managing a fund, and the potential conflicts of interest that may arise when they also manage other investment vehicles. Comment period ended on May 21, 2004. **Final Rule adopted by the Commission on August 18, 2004.**

- *Press Release:* <http://www.sec.gov/news/press/2004-31.htm>
- *Proposed Rule:* <http://www.sec.gov/rules/proposed/33-8396.htm>
- *Final Rule:* <http://www.sec.gov/rules/final/33-8458.htm>