



**NASAA**

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**NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.**

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May 21, 2004

Jonathan Katz, Secretary  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549-0609

Via e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

**Re: File No. S7-12-04; Release Nos. 33-8396; 34-49398; IC-26383  
Disclosure Regarding Portfolio Managers of Registered Management  
Investment Companies**

Dear Mr. Katz:

The North American Securities Administrators Association, Inc. (NASAA)<sup>1</sup> is pleased to submit comments regarding the above-cited proposed rules. The proposal would amend regulations applicable to registered management investment companies (“funds” or “mutual funds”) under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940 to require greater disclosure of information regarding funds’ portfolio managers (“fund managers”).

NASAA shares the Commission’s objective of providing greater transparency regarding fund managers. The proposal focuses on the identification of a fund’s manager or management team; incentives received for managing the fund; and disclosure of potential conflicts of interest. These disclosure and reporting requirements will encourage managers to review continually their practices and duties to the fund and its investors.

The Commission requested general comments on proposed disclosure requirements, as well as comments on specific issues raised by the proposal. NASAA will focus on general and specific issues discussed by the Commission.

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<sup>1</sup> The oldest international organization devoted to investor protection, the North American Securities Administrators, Inc. was organized in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Canada, Mexico and Puerto Rico. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

## **I. General Comments Applicable To All Issues Under The Proposed Rule**

### ***A. Location Of Disclosure***

NASAA recently submitted comments to the Commission addressing the fact that investors are increasingly turning to the Internet for information.<sup>2</sup> We continue to support disclosure of information to the public in as many accessible ways as possible. Providing investors with disclosures in the prospectus; in Forms N-1A, N-2, N-3 and N-CSR (the “Forms”), as appropriate; in the Statement of Additional Information (“SAI”); and on a fund’s website, should give investors adequate and up-to-date information that will aid them in making investment decisions.

### ***B. Method Of Distribution And Timeliness Of Updates To The Proposed Amended Forms***

NASAA submits that investors should be permitted to choose how they want to receive each fund’s prospectus, Forms, and SAI: electronically, by mail, or both. In the electronic versions, all changes to these documents, whether or not material, should be made available immediately and accompanied by redlined versions showing the changes made. Hard copies of revised documents should be mailed to investors at least quarterly. Fund managers have fiduciary obligations to their funds and fund investors. Communicating changes to key documents as they occur should be of paramount importance. At the same time, complying with such requirements should not be unduly burdensome given the availability of electronic means of communication.

## **II. Comments Applicable To Specific Issues Under The Proposed Rule**

### ***A. Identification Of Portfolio Management Team Members***

NASAA supports the Commission’s proposal to amend Forms N-1A and N-2 to require identification of each member of a committee, team, or other group of persons associated with a fund’s investment adviser that is jointly and primarily responsible for the day-to-day management of the fund’s portfolio.

- 1) Investors and the public should be privy to information that will enhance their ability to make informed and comprehensive decisions about mutual funds. NASAA recommends that the Commission require disclosure of each management team member’s name, title, management role, business experience, and length of service with that fund.
- 2) Disclosure of the management team’s structure and decision-making process, as proposed by the Commission, would provide investors with further insight into a fund’s operation and investment strategies.
- 3) Forms N-1A, N-2, N-3 and N-CSR instruct the portfolio manager to list the last five years of its business experience. The reporting standard should be equal to that set by the Commission for other securities professionals. NASAA thus

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<sup>2</sup> See NASAA comment letter, dated April 23, 2004, referencing File No. S7-08-04: Release Nos. 33-8364: 34-49219; IC-26350 – Disclosure Regarding Approval of Investment Advisory Contracts by Directors of Investment Companies.

suggests that the Forms instruct portfolio managers to list at least ten years of employment or business experience for each member of the management team.<sup>3</sup>

- 4) NASAA believes that the “upon request” standard used to disclose the SAI is insufficient and limits the value of the SAI as a disclosure document. All investors should receive the SAI. As noted above, electronic delivery modes will help reduce distribution costs.<sup>4</sup>
- 5) Disclosures regarding members of portfolio management teams should be included in the SAI. Furthermore, any changes in fund management should be immediately reflected in the SAI.
- 6) NASAA strongly supports the Commission’s proposal to require portfolio managers of separate variable annuity accounts to provide prospectus disclosure in the same manner as other fund managers.

***B. Disclosure Regarding Other Accounts Managed, Potential Conflicts Of Interest, And Policies And Procedures To Address Conflicts***

NASAA supports the Commission’s proposal to require on the fund’s SAI a substantive disclosure regarding potential conflicts of interest in connection with other accounts for which the fund manager or team member is primarily responsible.

- 1) NASAA supports the Commission’s proposal for disclosure of conflicts of interest that may arise in connection with managing a fund and managing other accounts.
- 2) While NASAA does not support limiting fund managers to certain types of accounts, we recognize that conflicts may occur. The disclosures of potential conflicts on the Forms, SAI, prospectus and web site will not only benefit investors, but will facilitate regulator scrutiny. Examination programs will be able to monitor the success of internal controls in preventing potential conflicts from becoming actual ones.

***C. Disclosure Of Portfolio Manager Compensation Structure***

NASAA supports the Commission’s proposed rule that a fund be required to disclose the structure of, and the method used to determine the compensation of, each portfolio manager and its team members. For example, NASAA would favor mandatory disclosure where the method for calculating a portfolio manager’s compensation was not the same for all of that manager’s accounts.

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<sup>3</sup> The Commission has already set a reporting standard of 10 years employment history on the Form U-4 to disclose information about registered representatives of broker-dealers and investment adviser representatives of investment advisers. It would only enhance the consistency of the Commission’s rules by applying the same reporting standard to portfolio managers, regardless of the fact that the portfolio managers are exempt from registration through the CRD/IARD system.

<sup>4</sup> See NASAA comment letter, dated April 23, 2004, referencing File No. S7-08-04: Release Nos. 33-8364: 34-49219; IC-26350 – Disclosure Regarding Approval of Investment Advisory Contracts by Directors of Investment Companies. Requiring the dialing of an 800 number to the fund, or an email, to request a copy of the SAI or other information would not appear to be making documents readily accessible for investors.

NASAA agrees that the disclosure of managers' incentives and their interests would be more useful to investors in understanding the nature of payments from a fund's assets for management services than would be disclosure of the actual dollar amount of compensation paid. Like the Commission, NASAA believes that the value of compensation paid to a portfolio manager or member of the portfolio management team may not be useful to investors, because portfolio managers, as employees of a fund's adviser, typically receive their compensation from the adviser.

***D. Disclosure Of Securities Ownership Of Portfolio Managers***

NASAA supports the Commission's proposal to require disclosure of a portfolio manager's personal investment trading in a fund and in other accounts. This should extend to investments in other funds managed by the same investment manager. Investors will benefit by being able to assess the alignment of the fund manager's interest in a fund with their own. We also believe that disclosing the actual value of the securities owned by the fund manager or team members is preferable to disclosing a dollar range.

In summary, the additional disclosures and increased monitoring of funds' portfolio managers and investment advisers proposed by the Commission should provide assurances to investors and the public that their funds are being managed honestly and effectively, thus helping to restore investor confidence.

Thank you for your consideration of these views. Should you have questions about these comments, please feel free to contact Patricia Struck, Chair of NASAA's Investment Adviser Section and Director of the Wisconsin Division of Securities; J. Baron Knight, Assistant Director of the District of Columbia Securities Bureau; or Jackie Van Cura, Securities Analyst with the Nebraska Securities Bureau.

Sincerely,

***Ralph A. Lambiase***

Ralph A. Lambiase  
NASAA President and  
Director, Connecticut Division of Securities