

Mutual Fund Industry Suggests Further SEC Action on the Profile Prospectus, May 1996

Mutual Fund Industry Suggests Further SEC Action on the Profile Prospectus

Washington, DC, May 21, 1996 - The Investment Company Institute today asked that the Securities and Exchange Commission consider proposing, for public comment, rules that would authorize the use of a new disclosure document for the mutual fund industry, the profile prospectus. The profile prospectus project was launched at the suggestion of SEC Chairman Arthur Levitt, Jr. in October 1994.

The profile prospectus is a concise and easy-to-read disclosure document containing the essential information consumers need to make mutual fund investment decisions. The Institute and eight mutual fund groups—American Express Financial Corporation; Bank of America N.T. & S.A.; Capital Research and Management Company; The Dreyfus Corporation; FMR Corp. (Fidelity); Scudder, Stevens & Clark, Inc.; T. Rowe Price Associates, Inc.; and the Vanguard Group, Inc.—worked to develop the proposed profile, which the SEC approved for use during a one-year trial period beginning August 1995. The development effort was undertaken in consultation with the SEC and state securities administrators.

"The mutual fund industry is pleased to submit our research findings and suggestions on the profile prospectus," said Matthew P. Fink, President of the Institute. "With 40 million shareholders, mutual fund disclosure has become a matter of national importance. Mutual fund disclosure today is better than for any other financial product. Chairman Levitt's profile initiative provides the opportunity to make it even better."

The profile prospectus includes 11 items of critical importance in investment decisionmaking. They are:

A recently completed [in-person study](#) by the Institute of more than 1,000 recent mutual fund buyers revealed that half of them did not consult the traditional prospectus and that many find it difficult to use and understand. The majority of these individuals stated that they would be more likely to use the profile prospectus, that it contains the right amount of information for making investment decisions, and that they can understand it. Sixty-six percent would prefer to receive the profile prospectus either alone or with the option to order the traditional prospectus before investing. To the Institute's knowledge, this research is the most extensive survey of U.S. investors ever conducted with regard to mutual fund disclosure.

"We started with a blank page to create a document that would help investors get the information they need to make investment decisions and to compare one fund with another. This was the challenge posed by Chairman Levitt," said Paul Schott Stevens, Institute Senior Vice President and General Counsel. "We went directly to the investing public to get their reaction, and we also consulted with a broad array of outside experts."

Stevens continued: "While no single document can be perfect for all purposes, the profile prospectus represents the best of our collective thinking. Hopefully, our research and suggestions will provide a solid basis for the SEC's further consideration and for eliciting constructive suggestions from all interested parties."

As a result of the Institute's findings, a number of significant enhancements have been made to the prototype version of the profile prospectus. They are:

The Institute has suggested that the SEC consider authorizing funds to distribute profile prospectuses to investors for use, at their option, either to purchase fund shares or order the fund's traditional prospectus. The profile is not intended to replace the traditional prospectus, which will continue to be available to mutual fund shareholders prior to investing and which will automatically be sent to those who invest in a mutual fund upon confirmation of their purchase.

The Investment Company Institute is the national association of the American investment company industry. Its membership includes

5,876 open-end investment companies ("mutual funds"), 448 closed-end investment companies, and 10 sponsors of unit investment trusts. Its mutual fund members have assets of about \$2.994 trillion, accounting for approximately 95% of total industry assets, and have over 38 million individual shareholders.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.