



THE CHAIRMAN

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

May 5, 1993

The Honorable John D. Dingell  
Chairman, Committee on Energy and Commerce  
United States House of Representatives  
Room 2125, Rayburn House Office Building  
Washington, DC 20515-6115

CHAIRMAN'S OFFICE  
MAILED

MAY 05 1993

Re: Mutual Fund Advertising Rules

Signed by \_\_\_\_\_

Dear Chairman Dingell:

Thank you for your letter of April 19, 1993, regarding press reports of changes to the Commission's rules on mutual fund advertising. You expressed concern about reports that the Commission "wiped most of the rules on mutual fund advertising off its books" and attached an article from the April 18 *Washington Post*. The article appears to refer to the Commission's proposal to permit the use of simplified prospectuses by mutual funds (also referred to as "off-the-page" prospectuses). (Similarly, an article in the April 23 *Washington Post* states that the Commission "decided this month to reduce government controls over sales of mutual funds....") I am happy to describe the simplified prospectus proposal and to correct any misleading impressions that those press reports may have created.

Nothing could be further from the truth than to say that the Commission has wiped the advertising rules off the books. The simplified prospectus proposal would in no way eliminate, relax, or reduce the scope of, the existing rules governing mutual fund advertising -- rules 134 and 482 under the Securities Act of 1933.

Rather, the proposal would add a new paragraph (g) to rule 482. Rule 482(g) would permit mutual fund simplified prospectuses -- advertisements that include order forms provided that they contain specified disclosures. Advertisements that do not contain order forms would continue to be subject to the existing provisions of rule 134 or 482, which do not require that any particular information be disclosed. Thus, the proposal is intended to elicit more meaningful information in fund advertisements.

The proposed simplified prospectus is intended to provide investors a concise presentation of information important to their investment decision. Investors would receive much more information about mutual funds than in current advertisements, and in a more condensed and readable format than in the full prospectus. The proposed rule would require prominent disclosure of the principal risks of investment, as well as a standardized presentation of performance data, and a table showing all fees and expenses. The proposal also would require simplified prospectuses to contain approximately twenty other items of information. With this information and format, investors not only would be better able to understand a particular investment option, but they also would be able to make comparative judgments about their investment alternatives, as these prospectuses are expected to be widely circulated in the print media.

The proposed simplified prospectus also is intended to address a disparity that currently exists between direct marketed funds, which typically charge no sales load, and funds that are sold by commissioned sales representatives. Because direct marketed funds sell exclusively through *written* communications, they must deliver a prospectus before a

sale can be made. Funds sold *orally* by brokers -- over the telephone or in person -- are not subject to the pre-sale delivery requirement; rather, the prospectus may be sent along with the confirmation.

The *Washington Post* article attached to your letter also contrasts the Commission's action with that of banking regulators by noting that "banking regulators are just now implementing new 'truth in savings' regulations that specify down to the decimal point how banks can advertise their accounts." Actually, since 1988 the Commission's regulations have required such standardized formulae for the calculation of yield and total return in mutual fund disclosure. The standardized presentation of performance data in the simplified prospectuses would follow those existing formulae.

The proposal contains several additional safeguards to protect the interests of investors. Simplified prospectuses, unlike mutual fund advertisements under rule 134, would have the legal status of prospectuses. Fund sponsors would have "prospectus liability," as well as antifraud liability, under the federal securities laws for false or misleading statements. Several layers of monitoring and review by Commission staff and the National Association of Securities Dealers, Inc. ("NASD") are also built into the proposal. For example, funds would prefile their proposed simplified prospectuses with the Commission or the NASD for the first year of their use, permitting advance review for misleading or exaggerated claims prior to circulation. To allow for on-going Commission monitoring, every simplified prospectus also would be filed with the Commission within three days after it is first used. Investors could request the longer prospectus before buying fund shares by checking a prominently displayed box. In all cases, the longer prospectus would be delivered to all investors before, or with, the confirmation of sale.

Finally, the Commission's action is only a proposal. The period for public comment ends June 23, 1993. The Commission will not take final action until it has weighed the comments received.

A copy of the proposing release is enclosed. If you require any additional information, please call Barbara J. Green, Deputy Director of the Division of Investment Management, at (202) 272-2045, or Matthew A. Chambers, Associate Director of the Division, at (202) 272-2039.

Sincerely,



Richard C. Breeden  
Chairman

Enclosure

cc: The Honorable Edward J. Markey  
The Honorable Carlos J. Moorhead  
The Honorable Jack Fields