



INVESTMENT COMPANY INSTITUTE

MATTHEW P. FINK
PRESIDENT

February 7, 1995

The Honorable Arthur J. Levitt, Jr.
Chairman
U.S. Securities and Exchange Commission
450 5th Street, N.W.
Washington, D.C. 20549

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OFFICE OF THE CHAIRMAN

Re: Profile Prospectuses

Dear Chairman Levitt:

The Investment Company Institute is pleased to submit for your consideration prototype versions of a proposed "profile prospectus" for mutual funds, which were developed in response to the initiative that you announced last October. The profile prospectus was conceived as a brief, self-contained summary that responds to investors' need for key information concerning a fund presented in a highly usable and understandable format.

As you know, eight prominent mutual fund organizations voluntarily participated in the development of the profile prospectus. The prototypes reflect the determination of all eight participants to consider different views concerning the optimal way to design the profile prospectus and to develop a single, standardized format. The Institute hopes that you will agree that their collaboration has been very fruitful and in keeping with your important objectives.

Representatives of the eight participating fund organizations and the Institute staff would be pleased to meet with you and your staff to discuss the prototype profile prospectuses. We look forward to working with the Commission and the state securities administrators on this important initiative.

Sincerely,

Matthew P. Fink

Enclosures

cc: Barry Barbash



INVESTMENT COMPANY INSTITUTE

PAUL SCHOTT STEVENS
GENERAL COUNSEL

February 7, 1995

Mr. Barry P. Barbash
Director
Division of Investment Management
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Mr. Barbash:

The Investment Company Institute¹ is pleased to submit for the staff's consideration prototype versions of a proposed "profile prospectus" for mutual funds, which were developed in response to SEC Chairman Arthur Levitt's initiative, announced on October 13, 1994.²

In response to Chairman Levitt's proposal, eight mutual fund organizations voluntarily participated in the development of the profile prospectus. These fund groups include: Bank of America, Capital Research and Management, the Dreyfus Corporation, Fidelity Research and Management, IDS Financial Services, T. Rowe Price Associates, Scudder Investor Services and the Vanguard Group. While each group had its own views on the optimal way to design the profile prospectus, all recognized the need for a standardized format and were able to agree on a single approach. As we hope you will agree, their collaboration has been very fruitful and much in keeping with Chairman Levitt's important objective.

Each of the eight organizations has prepared three versions of the profile prospectus, covering one money market fund, one fixed income fund and one equity fund. Copies of all 24 samples are attached.

Some of the key features of the profile prospectus are described below:

Self-contained document. The profile prospectus is intended to be a self-contained document that would accompany the full prospectus. This could be done by structuring the profile prospectus as a separate document that would be included along with the full

¹ The Investment Company Institute is the national association of the American investment company industry. Its membership includes 5,510 open-end investment companies ("mutual funds"), 471 closed-end investment companies and 12 sponsors of unit investment trusts. Its mutual fund members have assets of about \$2.099 trillion, accounting for approximately 95% of total industry assets, and have over 38 million individual shareholders.

² "Taking the Mystery out of the Marketplace: The SEC's Consumer Education Campaign," Remarks by Arthur Levitt, Chairman, U.S. Securities and Exchange Commission, National Press Club, Washington, D.C. (October 13, 1994).

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prospectus, or as a prospectus "wrapper". (For regulatory purposes, it would be considered an omitting prospectus under Rule 482 of the Securities Act; it would not be part of a fund's registration statement.) Information included in the profile prospectus that is required under Form N-1A thus could not be omitted from the full prospectus. In addition, the profile prospectus would not include any cross-reference to the full prospectus, except for a legend stating that more details about the fund appear in the full prospectus.

Length. While Chairman Levitt's speech envisioned a "single-page summary", the eight fund organizations that participated in the project concluded that a single prospectus-size page (normally sized approximately 8 1/2 inches by 5 1/2 inches) would not accommodate the key information that investors should be provided about a mutual fund. As the enclosed samples illustrate, however, the profile prospectus would be dramatically shorter than the full prospectus.³

Standardization. The eight participating organizations agreed on the need for some considerable degree of standardization so that investors would be in a position to compare readily the funds offered by different fund complexes. At the same time, since each mutual fund would be responsible for preparing its own profile prospectus, it was recognized that the profile prospectuses could not be perfectly standardized as are the summaries prepared by independent services (such as Morningstar or Value Line). Moreover, document sizes and designs differ among fund complexes, often as a result of market research or other studies of investor preferences. If the profile prospectus had to comply with an overly standardized format, then fund complexes would have to alter the size of the prospectus and other materials accompanying the profile prospectus, at a substantial cost to the funds.

In order to balance these two conflicting considerations, the group decided that the contents of the profile prospectus should be standardized as follows: The information to be included would consist of eleven items, which would have to be presented in the same order (and be numbered accordingly). Additional information (i.e., information beyond what would be required under the eleven items) would not be permitted, in the interests of standardization.⁴

Required Disclosures. In general, the contents of the profile prospectus would follow those of the SEC's proposed summary prospectus. Certain additional disclosures would be

³ The samples included all pertain to a single fund with a single outstanding class of shares. The group did not attempt, at this stage, to draft a profile prospectus for a fund that issues multiple classes of shares. (At the very least, it would be premature to do so in advance of the adoption by the SEC of the pending exemptive rule for multi-class funds and corresponding rules governing disclosure obligations of such funds.) In addition, it may be advisable to allow a single profile prospectus to cover different mutual funds that share some common features (e.g., several bond funds offered by the same organization).

⁴ Of course, funds could include additional information in the full prospectus or in supplemental sales literature that would accompany the full prospectus and the profile prospectus.

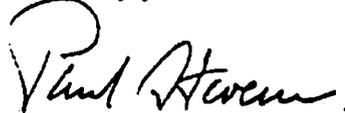
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required, most notably a section briefly setting forth the characteristics of an investor for whom the fund might be an appropriate (or inappropriate) investment and a bar graph showing the fund's annual total returns for the last ten calendar years.⁵

A set of the instructions that the eight fund organizations followed in preparing their summary prospectuses is attached.

The Institute believes that the profile prospectuses prepared by the eight organizations are fully responsive to Chairman Levitt's directive. Representatives of both the eight participating fund organizations and the Institute staff would be pleased to meet with you and members of your staff to discuss this submission, and we look forward to hearing your views on this matter.

Very truly yours,



Paul Schott Stevens
General Counsel

Enclosures

⁵ A few disclosure items included in the summary prospectus proposal are not included in the sample profile prospectuses. These include the fund's portfolio turnover rate, disclosure regarding legal proceedings and the special legends concerning sales loads. The Institute believes these items were of marginal importance and/or are not relevant in situations where the full prospectus accompanies the disclosure document. In addition, for similar reasons, the disclosures concerning purchases and redemptions are generally briefer than contemplated under the summary prospectus proposal.

INSTRUCTIONS FOR PROFILE PROSPECTUS

General: The profile prospectus should be in a format that would enable it to be used as a prospectus wrapper or included as a separate document that would accompany the full prospectus.

The name of the fund and the fact that the document is a "Profile Prospectus" should appear prominently at the beginning of the document. The following legend should appear somewhere in the document:

This Profile Prospectus contains key information about the Fund.
More details appear in the Fund's accompanying Prospectus.

The profile prospectus also should include the following eleven disclosure items. These items should appear in the order listed, and each should be numbered accordingly. Each item should include the appropriate heading (e.g., "Risks"), although this can be satisfied by using a question-and-answer format (e.g., "What are the risks of the fund?").

The contents of the profile prospectus should be limited to the information set forth herein. Additional information, or more detailed responses to the items listed, should only be disclosed in separate document (except for any legends that may be required under law). The profile prospectus should not contain cross-references to the full prospectus or to any other document.

1. **Goals or Objectives:** Briefly describe the fund's goals or objectives. This can include identification of the type of fund (e.g., money market fund, balanced fund).
2. **Investment Strategies:** Briefly describe the fund's investment policies, including a short description of the types of securities in which the fund invests or will invest principally and any special investment practices or techniques. If the fund has a policy of concentrating investments in an industry or group of industries, this should be disclosed.
3. **Risks.** Briefly describe, in narrative form, the principal risk factors associated with an investment in the fund. These should be specific to the type of fund. (For example, disclosure that the principal value of the shares may fluctuate is not sufficient.) If the fund is nondiversified, this fact should be disclosed.

A fund may, if it wishes, also include a discussion of the anticipated rewards of investing in the fund. If so, the discussions of risk and reward should be separated and labeled accordingly. Any discussion of rewards should avoid promisory language.

4. **Appropriateness.** Briefly set forth characteristics of an investor for whom the fund might be expected to be an appropriate and/or inappropriate investment (e.g., time horizon, willingness to tolerate fluctuations in principal, material tax consequences).

5. Fees and Expenses. Include the fee table from Item 2(a)(i) of Form N-1A, with all items including the hypothetical example. A brief explanation of the difference between shareholder-level and fund-level expenses should be provided. In accordance with Form N-1A, if expenses have been waived, there should be disclosure of what the expenses would have been absent the waiver.

6. Past Performance.

(a) Bar Graph – Include a bar graph showing the annual total returns of the fund for each of the last 10 calendar years, or the life of the fund if less than 10 years. The graph should include disclosure of the yearly returns in numerical form.

The total returns should be computed without regard to any front-end or deferred sales charges; however, if the fund assesses any such charges, the fact that these are not reflected should be disclosed. Only returns for full years should be included (i.e., no stub periods).

(b) For money market funds only – Include (i) the fund's 7-day yield, current as of the end of the most recent calendar quarter and (ii) a toll-free number where investors can obtain the current 7-day yield.

For all other funds – Include the standardized 1, 5, and 10 year total return data and, at the option of the fund, the fund's SEC yield, each as of the end of the most recent calendar quarter.

No other performance information should be provided in response to this item. The fact that past performance is no guarantee of future results should be disclosed.

7. Investment Adviser. Identify the fund's investment adviser.

8. Purchases. Briefly describe how to purchase shares. Include any minimum investments. If variations in sales loads are available, this should be noted.

9. Redemptions. Briefly describe how to redeem shares.

10. Distributions. Disclose when and how (e.g., cash, reinvestment) distributions are made.

11. Other Services. Briefly describe other services available to investors (e.g., exchange privileges, telephone transactions).