

# U.S. SECURITIES AND EXCHANGE COMMISSION

**Open Meeting  
March 28, 1995**

## Opening Statement of Chairman Levitt

Today we have before us a recommendation from the Division of Investment Management that the Commission publish a concept release asking for comments on how to improve the disclosure of risks by mutual funds and other management investment companies.

The ideas we are discussing today were developed with individual investors in mind. Many of these investors first entered the market through mutual funds, which have grown enormously in popularity in recent years. In 1980, one out of sixteen American households owned mutual funds; today it's one out of four. But during those same years, funds have become more complex. The number and types of funds have proliferated, as has the use of increasingly complex and sometimes risky instruments, including derivatives.

Under existing Commission rules, funds are required to disclose in their prospectuses the principal risks of investing. But prospectuses can be tough to read, and it can be hard for investors to divine the overall risk level of a fund from a long and complicated prospectus. We have been working on a number of fronts to ensure that mutual fund prospectuses are not only comprehensive, but comprehensible.

George Orwell blamed the demise of the English language on politics; he obviously never read a prospectus. The Commission's passion for full disclosure has created fact-bloated reports, and prospectuses that are more redundant than revealing. So we're now taking a different tack: For one thing, we've asked funds to pilot a "profile prospectus," which includes a concise summary of key information in plain English.

Like the profile prospectus, today's release highlights our efforts to make mutual fund materials more user-friendly to investors. I believe the Commission must explore whether we can change our requirements and facilitate improved communication of fund risks to investors. This is a challenging task. Risk is a complex subject, and it is important that fund disclosures about risk be both accurate and understandable by the many individual investors who rely on mutual funds to meet their fundamental financial needs.

Today we invite the public to join with us as we search for better means of communicating fund risks. We hope the release fosters a dialogue with all interested parties, inside and outside the investment company industry. And given the

importance of this issue to individual investors, we are extremely interested in their ideas as well. To encourage individual investors to comment on the Concept Release, the Division of Investment Management and our Office of Consumer Affairs have produced a short summary of the Release for individual investors. We invite investors to tell us about what information they find most helpful in evaluating mutual fund risk. These suggestions will prove invaluable in our efforts to provide investors with better tools for understanding a fund's risk level.