

CLIENT ALERT

SEC Proposes Modernization of Disclosure Framework for Mutual Funds and ETFs and Amendment of Advertising Rules for Investment Companies

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AUTHORS

Margery K. Neale | **Benjamin J. Haskin** | **Richard F. Jackson** | **Neesa P. Sood**

The Securities and Exchange Commission (the “SEC”) recently proposed comprehensive rule and form amendments in an effort to modernize the disclosure framework for open-end investment companies registered under the Investment Company Act of 1940 (the “1940 Act”), including mutual funds and exchange-traded funds (“ETFs”) (together, “funds”).¹ The centerpiece of the proposal, reflecting a “layered” approach to disclosure that seeks to serve the needs of retail investors better, is a streamlined form of shareholder report.

Funds currently rely on a layered approach to providing prospectus disclosures to investors, making use of a summary prospectus, the more fulsome statutory prospectus, and the Statement of Additional Information to provide increasingly detailed information to investors. Typically, funds provide a summary prospectus upon an initial investment. Thereafter, funds often provide an updated summary prospectus annually, as well as annual and semi-annual shareholder reports, while the full statutory prospectus and Statement of Additional Information are posted online and provided to investors on

¹ See [Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds: Fee Information in Investment Company Advertisements](#), Securities Act Release No. 10814 (Aug. 5, 2020) (the “Proposing Release”).

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request. The shareholder reports provide detailed information about a fund's operations and activities during the last full or half-year period and, as the SEC has noted, can be quite lengthy.

The SEC's proposal would extend the layered approach to disclosure that is currently used for initial investments to the ongoing disclosures provided to existing investors, including with respect to their subsequent investments. The proposal is based in part on feedback that the SEC received as a result of its request for comment on retail investors' experience with fund disclosure,² and focuses on providing disclosure to fund shareholders that would highlight key information for assessing and monitoring a fund investment and informing decisions whether to buy additional shares, continue to hold, or sell shares. This information would include fund expenses, performance, summary holdings information, and material fund changes, and would be presented in a redesigned format intended to promote effective communication.³ Additional information would be available online and upon request for shareholders who want a more detailed look at a fund's operations. Notably, the SEC's proposal contemplates increased use of the internet as a means of providing information to investors and encourages funds to use online tools to enhance and personalize the information that they provide to shareholders.

These streamlined shareholder reports are proposed to serve as the primary fund disclosure documents that existing shareholders would receive each year, together with notice of material fund changes. New investors in a fund would continue to receive a prospectus with their confirmation of initial purchase, but under the proposal, funds would not be required to send annual prospectuses to existing shareholders, assuming the conditions of proposed new Rule 498B under the Securities Act of 1933 (the "Securities Act") are met. Because of the proposed role that would be played by shareholder reports in the layered disclosure framework, under the SEC's proposal, mutual funds and ETFs would not be able to rely on Rule 30e-3 to avoid delivering shareholder reports.⁴

In addition to the new reporting framework for existing investors, another aspect of the SEC's proposal would amend prospectus disclosure requirements applicable to mutual funds and ETFs with respect to fees, expenses, and principal risks.

² See [Request for Comment on Fund Retail Investor Experience and Disclosure](#), Investment Company Act Release No. 33113 (June 5, 2018) (the "RFC").

³ For an illustrative view of these changes, please see the SEC's [chart](#) comparing the current and proposed shareholder report content and delivery requirements. The chart was included in the SEC's [August 5, 2020 press release](#) related to the Proposing Release.

⁴ Rule 30e-3 under the 1940 Act would permit any registered management investment company or unit investment trust, subject to certain conditions, to satisfy its requirement to deliver reports to shareholders by making them publicly accessible on the internet, free of charge, and sending investors a paper notice of each report's availability by mail. Funds may begin transmitting notices pursuant to Rule 30e-3 beginning January 1, 2021, subject to certain disclosure requirements. See [Optional Internet Availability of Investment Company Shareholder Reports](#), Investment Company Act Release No. 33115 (Jun. 5, 2018).

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The SEC also proposed to amend the investment company advertising rules with respect to presentation of fees and expenses. The proposed advertising rule amendments would apply to all registered investment companies (including closed-end funds) and business development companies (“BDCs”).

Each of these aspects of the SEC’s proposal is discussed in more detail below.

As of the date of this Client Alert, the Proposing Release has not yet been published in the Federal Register. The public comment period on the proposals will end 60 days after publication in the Federal Register.

I. Shareholder Reports Tailored to the Needs of Retail Shareholders

The SEC’s proposal contemplates that a fund’s shareholder reports, as proposed to be modified, would serve as the central source of fund disclosure for existing shareholders of a fund. To implement this approach, the SEC has proposed changing the existing disclosure framework for funds to highlight key information for retail investors in the shareholder reports, while making more detailed information available online and by request for shareholders who want it.⁵ The new disclosure approach is intended to tailor the information that investors receive to help them to better assess and monitor their investments and make informed decisions. The Proposing Release states that the SEC “recognize[s] that investors have different levels of knowledge and experience, and . . . seek[s] to promote disclosure that is inviting and usable to a broad spectrum of investors.”⁶ The proposed requirements for shareholder reports are outlined in Appendix I to this Client Alert.

Since existing shareholders would no longer receive an annual updated prospectus, the SEC has proposed to add a new section to the annual shareholder report to describe material changes to the fund. As proposed, a fund would be required to describe briefly in its annual report any material change in an enumerated list of items that has occurred since the beginning of the reporting period *or that the fund plans to make in connection with its annual prospectus update*. These items include material changes to the fund’s name, investment objectives, fees, principal investment strategies or risks, investment adviser, subadviser, or portfolio manager.⁷ Considering that funds generally must transmit annual reports within 60 days after fiscal year-end, but their annual prospectus updates are typically finalized within 120 days after fiscal year-end, it may prove challenging for funds to satisfy this requirement as it relates to future changes as of the date of the report, including when they are still working to satisfy SEC staff comments on proposed changes to their prospectus disclosures. The Proposing Release suggests that, under these circumstances, a fund could provide only a high-level description of the change because the exact disclosure regarding the change in the prospectus could be subject to

⁵ Certain information currently included in annual and semi-annual shareholder reports would be made available online and upon request, and filed with the SEC on Form N-CSR, including the schedule of investments and other financial statements, as discussed below.

⁶ Proposing Release at 38.

⁷ *See id.* at 139.

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modification, and include a legend directing shareholders to the fund's next prospectus for additional detail and the date by which the fund expects the updated prospectus will be available.⁸ For material changes occurring too late to be included in an annual report, the Proposing Release suggests that a fund (or intermediary) should provide a timely notice of the material change to shareholders under proposed Rule 498B, if applicable, or through a prospectus sticker or annual prospectus update. The fund would also need to disclose the material change in its next annual report.⁹

The SEC has proposed adding new Item 27A to Form N-1A to specify the design and content of a fund's annual and semi-annual reports. This would replace the provisions in current Item 27 of Form N-1A that relate to annual and semi-annual reports. Proposed instructions to the new Item 27A would, among other things, specifically address electronic presentations and are intended to provide flexibility to enhance the usability of reports that appear online or on mobile devices.

A principal concern raised by the SEC and investors with respect to current shareholder reports is their length and complexity.¹⁰ The Proposing Release notes that this concern is even more pronounced when a shareholder report covers multiple series of a registrant, and states that the practice of including multiple series in a single report would be inconsistent with the SEC's goal of creating concise shareholder reports that shareholders can more easily use to assess and monitor their investments. The SEC has proposed as part of this new framework that fund registrants be required to prepare separate annual and semi-annual reports for each series so that shareholders would receive shareholder reports that cover only the series in which they are invested. The SEC did not propose to extend this requirement to shareholder reports of funds that issue multiple classes of shares.

⁸ See *id.* at 140.

⁹ See *id.* at 140-1 and n.291.

¹⁰ See *id.* at n. 38 (citing comments received from investors responding to the RFC) and text accompanying n.43.

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II. Availability of Additional Information on Form N-CSR and Online

The Proposing Release states that the following information that is currently required to be included in a fund's shareholder reports may be less relevant to retail shareholders, and of more interest to financial professionals and those investors who desire more in-depth information:

- financial statements;¹¹
- full disclosure regarding changes in and disagreements with accountants;¹²
- results of any shareholder vote;
- remuneration paid to directors, officers and others; and
- the basis for the board's approval of the advisory contracts.

This information would not be included in the proposed new streamlined shareholder report. Instead, this information would be moved to Form N-CSR and a fund would be required to post it online. A fund would also be required to deliver all of this information to a shareholder upon request (paper or electronic, as applicable) within three business days of receipt of the request. Currently, funds are required to file reports on Form N-CSR with the SEC on EDGAR not later than 70 days after the close of the fund's fiscal half-year, and this timing is not proposed to be changed. Under the proposal, a fund would have to make this information available from 70 days after the end of the relevant fiscal period until 70 days following the next respective fiscal period.

In addition, the SEC has proposed to require a fund (other than a money market fund) to make its complete portfolio holdings, as of the close of the fund's most recent first and third fiscal quarters, available on a website.¹³ Funds are

¹¹ As proposed, this would include a fund's financial highlights, condensed financial statements, and schedule of investments. The SEC has proposed retaining the current requirement to include a graphical representation of a fund's holdings (e.g., tables, charts, or graphs depicting the fund's portfolio holdings by category) in its shareholder reports, with certain revisions (i.e., permitting a fund to base its presentation on its net exposure, rather than net asset value or total investments, and instructing funds to keep disclosures regarding credit quality and credit ratings brief and concise).

¹² The currently required annual report disclosure regarding accountants would be moved to Form N-CSR under the proposal. In its place, the SEC has proposed to include in the annual report to shareholders a high-level summary of the information that a fund would report on Form N-CSR. The SEC has proposed to require a fund, when it has a material disagreement with an accountant that has resigned or been dismissed, to disclose in its annual report a statement of whether the former accountant resigned, declined to stand for re-election, or was dismissed and the date thereof; and a brief, plain-English description of disagreement(s) with the former accountant during the fund's two most recent fiscal years and any subsequent interim period that the fund discloses on Form N-CSR.

¹³ ETFs that rely on Rule 6c-11 under the 1940 Act must continue making their daily portfolio holdings available online pursuant to paragraph (c)(i) of that Rule.

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currently required to disclose their holdings as of the end of each fiscal quarter in reports on Form N-PORT filed with the SEC on EDGAR. However, not all open-end funds are currently required to send holdings information as of the end of the first and third quarters to shareholders or to make that information accessible on a website other than through the SEC's EDGAR filing system.¹⁴ As proposed, a fund would have to make this information available within 70 days after the close of each such quarter. A fund's portfolio holdings information for its first and third fiscal quarters would have to remain publicly accessible online for a full fiscal year. This portfolio holdings information would complement the second and fourth fiscal quarter portfolio holdings information that funds would be required to make available on a website (as part of the proposed requirement to make their financial statements available online).

III. Proposed Rule 498B and Annual Prospectus Delivery Requirements

Currently, shareholders of open-end funds (including ETFs) generally are provided an annual updated (summary or statutory) prospectus each year. Under the proposal, investors would continue to receive summary or statutory prospectuses when they initially invest in a fund, but thereafter, as existing shareholders in a fund, they would receive more concise annual and semi-annual reports designed to highlight information that the SEC has identified as particularly important for retail shareholders, including information about fund expenses, performance, and portfolio holdings. As an alternative to requiring funds to provide shareholders with annual updated prospectuses, proposed new Rule 498B would permit (but not require) a fund to satisfy any prospectus delivery requirements to its existing shareholders under Section 5(b)(2) of the Securities Act¹⁵ by meeting certain conditions contained in the proposed rule. These proposed conditions include, among others:

- *Prior Delivery of a Prospectus to an Existing Shareholder.* A fund prospectus has been previously sent or given to the existing shareholder to satisfy any obligation under Section 5(b)(2) of the Securities Act, such as in connection with the shareholder's initial investment in the fund;¹⁶

¹⁴ The Proposing Release notes that currently funds must report first and third quarter holdings on Form N-PORT, Part F. Funds that choose to rely on Rule 30e-3 to deliver shareholder reports electronically must make this information available on a website, but other funds are not currently required to do so. See Proposing Release at 215 and n.461.

¹⁵ Section 5(b)(2) of the Securities Act states that "[i]t shall be unlawful for any person, directly or indirectly . . . to carry or cause to be carried through the mails or in interstate commerce any . . . security [for which a registration statement has been filed] for the purpose of sale or for delivery after sale, unless accompanied or preceded by a prospectus that meets the requirements of [Section 10(a) of the Securities Act]" (*i.e.*, a statutory prospectus).

¹⁶ Proposed Rule 498B would define "existing shareholder" as "a shareholder to whom a Summary Prospectus or Statutory Prospectus has been previously sent or given in order to satisfy any obligation under [S]ection 5(b)(2) . . . and that has either continuously held Fund shares or, if the Fund is a money market fund . . . has continuously maintained or been a beneficial owner of a Fund Account, since that Summary Prospectus or Statutory Prospectus has been sent or given." In addition, to take into account the manner in which money market funds are often used by investors, the proposed rule would define "Account" as any contractual or other business relationship between a person and a fund to effect transactions in securities

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- Website Availability. A fund's current summary prospectus, statutory prospectus, Statement of Additional Information and most recent annual and semi-annual reports are available for shareholders to access online (and would be delivered upon request in paper or electronically, consistent with the shareholder's delivery preference); and
- Notice of Material Changes. Notice of "material changes" to certain fund information (as described in new Item 27A of N-1A) will be delivered to existing shareholders within three business days of either the effective date of the fund's filing of a post-effective amendment to its registration statement or the date of the fund's prospectus supplement filing, by first-class mail or other means designed to ensure equally prompt receipt.¹⁷

The SEC's proposal does not specify the form of the proposed notice of material changes. The Proposing Release states that a fund could satisfy this requirement, for example, by sending existing shareholders the prospectus supplement filed with the SEC, an amended prospectus which reflects the material change, or another form of notice that discusses the change. A notice of material changes would be required for the same types of material changes that would be required to be disclosed in the proposed annual report, including material changes in the fund's name, investment objectives or goals, principal investment strategies, the principal risks of investing in the fund, the fund's investment adviser or sub-adviser, or the fund's portfolio manager or a material increase in the fund's ongoing annual fees, transaction fees, or maximum account fee.¹⁸ In that regard, the Proposing Release states that a fund would be required to disclose a change "only if the

issued by the fund, including the purchase or sale of securities. The definition of existing shareholder expressly excludes investors that hold fund shares through a separate account funding a variable annuity contract or a variable life insurance contract.

¹⁷ If the shareholder does not specify a delivery preference, the proposed rule would require that the notice be provided in paper. However, notices of material changes could also be delivered electronically, consistent with current SEC guidance, if a shareholder elects electronic delivery. In addition, proposed Rule 498B would allow "householding" of notices of material changes if the notice satisfies Rule 154 under the Securities Act, which generally provides that funds may deliver a single copy of a prospectus to investors who share the same address, pursuant to certain other requirements.

¹⁸ The topics about which a notice of material changes would be required include the following:

- (1) The fund's name;
- (2) The fund's investment objectives or goals;
- (3) With respect to material increases, the fund's ongoing annual fees, transaction fees, or maximum account fee;
- (4) The fund's principal investment strategies;
- (5) The principal risks of investing in the fund;
- (6) The fund's investment adviser(s); and
- (7) The fund's portfolio manager(s).

The Proposing Release also notes that a fund may describe other material changes that it would like to disclose to its shareholders under proposed Item 27A(g) of Form N-1A. See Proposing Release at n. 517 (referencing Proposed Rule 498B(c)(2) under the Securities Act; Proposed Item 27A(g) of Form N-1A).

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change is material to the particular fund. A fund should base this materiality determination on the facts and circumstances of the fund and the specific change.”¹⁹ The Proposing Release notes, for example, that an index fund could determine that a change in its portfolio manager is not a material change.²⁰

IV. Amendments to Scope of Rule 30e-3 to Exclude Open-End Funds

Rule 30e-3 under the 1940 Act generally will permit investment companies to satisfy shareholder report transmission requirements by making these reports and other materials available online and providing a paper notice of availability by mail (a “notice plus access” approach) instead of directly mailing the report (or emailing an electronic version of the report) to shareholders. Rule 30e-3 is subject to certain conditions, and will take effect in some cases as early as January 1, 2021. In conjunction with the SEC’s stated goal of transforming the annual and semi-annual reports into the key disclosure documents for existing shareholders of a fund, the SEC has proposed to exclude open-end funds from the scope of Rule 30e-3. Accordingly, open-end funds would be required to send the new streamlined shareholder reports to shareholders and would not be permitted to provide only notice of such reports (plus online access).²¹

V. Proposed Changes to Prospectus Disclosure of Fund Fees and Risks

The SEC’s proposal would require changes to open-end fund prospectus disclosure with respect to fund fees and risks, as follows.

Fee Tables. The proposed amendments would require changes to a fund’s fee table, including by:

- replacing the existing fee table in the summary section of the statutory prospectus with a simplified “fee summary”;
- moving the existing fee table to the statutory prospectus, for use by investors seeking additional details about fund fees;
- replacing certain terms in the current fee table with terms that may be clearer to investors (e.g., “purchase charge” instead of “maximum sales charge”); and

¹⁹ Proposing Release at 137.

²⁰ *Id.*

²¹ The Proposing Release notes that if the SEC’s new proposal is adopted, a fund that has previously relied on Rule 30e-3 may wish to communicate the change to investors and could, for example, do so in the annual shareholder report sent to investors. *Id.* at 259-60.

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- permitting open-end funds that invest 10% or less of their total assets in other funds (excluding money market funds) to disclose the fees and expenses associated with those investments (“acquired fund fees and expenses”) in a footnote to the fee table and fee summary, rather than as a fee table line item.

The proposed changes to the fee table are outlined in Appendix II to this Client Alert.

Risk Disclosure. The Proposing Release states that the proposed amendments are intended to respond to issues that the SEC and its staff have observed in some funds’ prospectus risk disclosure and to adopt additional requirements that the SEC believes would be beneficial to funds and investors, including by:

- prohibiting the inclusion of non-principal risks in the prospectus;
- requiring principal risks to be presented in order of importance rather than listed alphabetically and to be “briefly” summarized;
- adding instructions to Form N-1A on how to determine when a risk is principal, including a new ten percent (10%) standard (i.e., in determining whether a risk is a principal risk, a fund would consider both whether the risk would place more than 10% of the fund’s assets at risk and whether it is reasonably likely that a risk will meet this 10% standard in the future); and
- where appropriate, tailoring its principal risk disclosure to how the fund operates rather than relying on generic, standard risk disclosures.

However, funds would be able to continue to disclose non-principal risks in the Statement of Additional Information.

VI. Advertising Rule Amendments for Investment Company Fees and Expenses

The SEC has proposed amendments to the investment company advertising rules—Rules 482, 433 and 156 under the Securities Act and Rule 34b-1 under the 1940 Act—relating to the presentations of fees and expenses in investment company advertisements. These amendments apply to advertisements of all registered investment companies (including closed-end investment companies) and BDCs.

Fee and Expense Information. Rule 482 establishes certain content, legend and filing requirements for investment company advertisements. Under the proposed amendments to Rule 482, investment company advertisements providing fee or expense figures for the company must include certain standardized fee and expense figures. In particular, investment company fee and expense presentations in advertisements would have to include timely and prominent information about a fund’s maximum sales load (or any other nonrecurring fee) and gross total annual expenses. The required fee and expense figures must be as of the date of the fund’s most recent prospectus (or a more recent date, if

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available) and must be presented “at least as prominently” as any other fee and expense figures included in the advertisement. The fee and expense figures would not be necessary, however, if an advertisement only included general, narrative information about fee and expense considerations and did not include any numerical fee or expense amounts. Advertisements that include a fund’s total annual expenses net of any fee waiver or expense reimbursement arrangement must include the expected termination date of the arrangement.

The SEC also has proposed to amend Rule 433, which applies to the use of free writing prospectuses by registered closed-end funds and BDCs,²² and Rule 34b-1, which applies to supplemental sales literature by any registered open-end company,²³ to incorporate Rule 482’s proposed content, presentation and timeliness requirements for fees and expenses.

Materially Misleading Statements and Representations. Rule 156 enumerates several pertinent factors that should be weighed in considering whether a particular statement involving a material fact is or might be misleading in investment company sales literature. The proposed rule amendment would add an additional factor providing that representations about the fees or expenses associated with an investment in the fund could be misleading because of statements or omissions involving a material fact, including situations where portrayals of such fees and expenses omit explanations, qualifications, limitations, or other statements necessary or appropriate to make the portrayals not misleading. The Proposing Release notes the concern that a fund’s fees and expenses could be materially misleading if the investor believes the costs associated with an investment are lower than they actually are. For example, where funds are marketed as “zero expense” or “no expense,” the Proposing Release notes that “in some cases a fund’s prospectus fee table shows no transaction fees and no ongoing charges only because its adviser, the adviser’s affiliates, or others are collecting fees elsewhere from these investors.”²⁴ The Proposing Release indicates that the proposed content-related requirements for Rules 482, 433, and 34b-1 and the proposed amendments to Rule 156 are intended to work together to promote balanced and transparent presentations of fee and expense information in investment company sales literature.

VII. Compliance Date

If adopted, the amendments generally would have a compliance date of 18 months after the amendments’ effective date, except that funds would be able to rely on Rule 498B to satisfy prospectus delivery requirements for existing shareholders

²² Rule 405 under the Securities Act defines a free writing prospectus generally as a written communication that constitutes an offer to sell or a solicitation of an offer to buy a security relating to a registered offering that is used after the registration statement is filed and by means other than a statutory prospectus or certain other communications. An entity that qualifies as a “well-known seasoned issuer” may use a free writing prospectus before or after a registration statement is filed. The SEC recently adopted rules permitting registered closed-end funds and BDCs to, among other things, qualify as well-known seasoned issuers and be able to use free writing prospectuses to communicate with investors before filing a registration statement. See [Securities Offering Reform for Closed-End Investment Companies](#), Investment Company Act Release No. 33836 (Apr. 8, 2020).

²³ Rule 34b-1 also applies to unit investment trusts and face amount certificate companies that are registered under the 1940 Act.

²⁴ Proposing Release at 332.

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beginning on the effective date of the rule if the fund is also in compliance with the amendments to Item 27A of Form N-1A, Rule 30e-1 and Form N-CSR at that time.

Appendix I - Shareholder Report Requirements

The following tables outline, at a high level, the proposed scope, format and presentation requirements, as well as the proposed content requirements for open-end funds' shareholder reports.

Scope, Format and Presentation of Proposed Shareholder Report for Open-End Funds	
Scope	<ul style="list-style-type: none">• Each fund (e.g., series of a registrant) must have its own shareholder report. Registrants will no longer be able to have a single shareholder report that covers multiple series.• The information in a shareholder report must be presented in the same order as the information appears in Item 27A.• Generally, a fund can only include the information that Item 27A of Form N-1A specifically permits or requires in its shareholder reports. For example, a fund would not be able to include a "President's Letter" in its report. However, if a fund's particular circumstances may cause the required disclosures to be misleading, the proposal would allow the fund to add additional information to the report that is necessary to make the required disclosure items not misleading.• The proposed amendments to Form N-1A would not permit a fund to incorporate by reference any information into its shareholder report.• The proposed updates to the shareholder reports would apply only to open-end funds registered on Form N-1A. The Proposing Release notes that the SEC is waiting to evaluate the impact of recently adopted changes to the disclosure framework for closed-end funds and variable insurance contracts before proposing additional changes that would affect these funds.

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Scope, Format and Presentation of Proposed Shareholder Report for Open-End Funds	
Format and Presentation	<ul style="list-style-type: none">• The SEC has provided a hypothetical streamlined shareholder report²⁵ as an illustration.• The expectation is that funds generally would be able to reduce the length of their shareholder reports to approximately 3-4 pages (although no word or page limit has been proposed).• The proposed amendments would require the use of plain English in a format addressed to the investor, and encourages the graphical presentation of information.• The proposed amendments would require certain legibility requirements for printed reports.• The proposed amendments would provide flexibility for open-end funds to make electronic versions of their shareholder reports more user-friendly and interactive.

Content of Proposed Shareholder Report for Open-End Funds	
Cover Page or Beginning of Report	<ul style="list-style-type: none">• Fund/Class name(s)• Ticker symbol(s)• Principal U.S. market(s) for ETFs• Statement identifying as “[Annual][Semi-Annual] Shareholder Report”• Legend

²⁵ The SEC’s August 5, 2020 press release related to the Proposing Release included the hypothetical streamlined shareholder report. See *supra* note 3.

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Content of Proposed Shareholder Report for Open-End Funds

Expense Example

- Provide the expenses of an ongoing \$10,000 investment in the fund during the reporting period in a table.

What were your Fund costs for the period? (based on a hypothetical \$10,000 investment)

Fund/Class	Beginning account value [beginning date]	Total return before costs paid*	Costs paid†	Ending account value [end date] (based on net asset value return)	[For ETFs only] Ending account value [end date] (based on market value return)	Costs paid as a percentage of your investment†
	\$10,000	+ \$[x] (plus)	- \$[x] (minus)	= \$[x] (equals)		%

* In this footnote, the fund would be required to describe qualitatively in plain English other costs included in total return, if material to the fund. For example, if applicable and material, the fund would note that fund investment transaction costs, securities lending costs, or acquired fund fees and expenses reduced the total return.

† In this footnote, the fund would be required to note in plain English that the actual costs paid during the period do not reflect certain costs paid outside the fund (such as purchase and exit costs charged by the shareholder's broker-dealer).

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Content of Proposed Shareholder Report for Open-End Funds	
Management’s Discussion of Fund Performance (MDFP)	<ul style="list-style-type: none"> • Required for Annual Reports (except money market funds); optional for Semi-Annual Reports. • <u>MDFP Narrative</u>. Briefly summarize the key factors (through use of graphics or text features, as opposed to lengthy, generic, overbroad descriptions) that materially affected the fund’s performance during the reporting period, including the relevant market conditions and the investment strategies and techniques used by the fund’s adviser. • <u>Performance Line Graph and Table</u>. <ul style="list-style-type: none"> ➤ <u>Line Graph</u>. Provide a line graph comparing the initial and subsequent account values at the end of each of the most recently completed 10 fiscal years of the fund (or for the life of the fund, if shorter). Assume a \$10,000 initial investment at the beginning of the first fiscal year in an appropriate broad-based securities market index for the same period. ➤ <u>Appropriate Broad-Based Securities Market Index</u>. The definition of an “appropriate broad-based securities market index” would be clarified to mean an index that represents “the overall applicable domestic or international equity or debt markets, as appropriate.”²⁶ A fund would be permitted to use more than one broad-based index as reflective of the fund’s strategy (i.e., a balanced fund could present both an equity and a debt index), and would be encouraged to use additional indexes, such as blended indexes or narrower indexes. ➤ <u>Performance Table</u>. The current performance table presenting a fund’s average annual total returns for the past 1-, 5-and 10-year periods would be modified to also include the following information for the same periods: (1) average annual total returns of a broad-based index; (2) average annual total returns without sales charges; and (3) average annual total returns of each class covered in the shareholder report. • <u>Stable Distribution Policy</u>. A fund with a policy to maintain a specified level of distributions would disclose <i>only</i> if it was unable to maintain the specified level during the past fiscal year, along with information on distributions resulting in return of capital.

²⁶ The current definition of an “appropriate broad-based securities market index” under Form N-1A is one that is “administered by an organization that is not an affiliated person of the fund, its adviser or principal underwriter, unless the index is widely recognized and used.” It does not specify what such an index should represent.

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Content of Proposed Shareholder Report for Open-End Funds	
Fund Statistics	<ul style="list-style-type: none"> • Provide the following statistics as of the end of the reporting period: (1) net assets, (2) total number of portfolio holdings, and (3) portfolio turnover rate. • Permits funds to disclose any additional statistics that the fund believes would help shareholders to better understand the fund’s activities and operation during the reporting period (e.g., tracking error, maturity, duration, average credit quality, or yield).
Graphical Representation of Holdings	<ul style="list-style-type: none"> • Include a “graphical representation of holdings” – one or more tables, charts, or graphs depicting the fund’s portfolio holdings by category (for example, type of security, industry sector, geographic region, credit quality, or maturity) as of the end of the reporting period. • Permits a fund to present its holdings as a percentage of total or net exposure to particular categories of investments, in addition to presenting by percentage of NAV or total investments. This is intended to address funds that primarily use derivatives, or use long and short positions, to implement their investment strategy.
Material Fund Changes	<ul style="list-style-type: none"> • Required for Annual Reports; optional for Semi-Annual Reports. • Briefly describe material changes to a fund that occurred during the reporting period, or that the fund plans to make in connection with its annual prospectus update. This is intended to highlight for shareholders the key changes to their investment. <ul style="list-style-type: none"> ➤ Under proposed Item 27A of Form N-1A, a fund would be required to briefly describe any material changes to the fund name; investment objective or goals; increase in annual fees, transaction fees or maximum account fees; principal investment strategies; principal risks; investment adviser(s), including sub-adviser(s); and portfolio manager(s). ➤ A fund would have discretion to disclose additional material changes outside of the foregoing enumerated items. ➤ Materiality would be determined based on the facts and circumstances of a fund and the specific change. ➤ If a fund is required to disclose a planned material change in the fund’s annual report while the description of the material change is under review by the SEC staff, a fund could include

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Content of Proposed Shareholder Report for Open-End Funds	
	only a high-level summary of the change in the annual report as the exact disclosure may be subject to further modification.
Changes in and Disagreements with Accountants	<ul style="list-style-type: none"> • Requires only a high-level summary of any changes in accountants and disagreements.
Statement Regarding Liquidity Risk Management Program (LRMP)	<ul style="list-style-type: none"> • Brief summary of the following – which, where appropriate, are tailored to the fund (rather than generic, standard disclosures): <ul style="list-style-type: none"> ➤ The key factors or market events that materially affected the fund’s liquidity risk during the reporting period; ➤ The key features of the fund’s liquidity risk management program (“LRMP”); and ➤ The effectiveness of the fund’s LRMP over the past year.
Availability of Additional Information	<ul style="list-style-type: none"> • Brief, plain-English statement that certain additional fund information (information not included in the annual report, such as the information proposed to be moved to Form N-CSR (e.g., financial statements and proxy voting information), as well as the fund’s prospectus) is available on the fund’s website.
Householding Disclosure	<ul style="list-style-type: none"> • Optional for all shareholder reports to include the notice to shareholders who have consented to householding.

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Appendix II - Form N-1A Fee Summary Requirements

The proposed fee summary requirements are shown in the following table, with current fee table line items shown on the left and corresponding line items in the fee summary on the right (with their proposed retitling).

Current Form N-1A Fee Table	Proposed Form N-1A Fee Summary
Shareholder Fees (fees paid directly from your investment)	Transaction Fees (fees paid each time you buy or sell)
Maximum Sales Charge (Load) Imposed on Purchases (as a percentage of offering price) _____%	Purchase Charge (as a percentage of your investment) [Up to] _____ % (Or [up to] \$____, if you invest \$10,000)
Maximum Deferred Sales Charge (Load) (as a percentage of _____) _____%	Exit Charge (as a percentage of _____) [Up to] _____ % (Or [up to] \$____, if you invest \$10,000)
Maximum Sales Charge (Load) Imposed on Reinvested Dividends [and other Distributions] (as a percentage of _____) _____%	Maximum Purchase Charge Imposed on Reinvested Dividends [and Other Distributions] (as a percentage of _____) [Up to] _____% (Or [up to] \$____, if you invest \$10,000)
Maximum Sales Charge (as a percentage of _____) _____%	Maximum Combined Purchase and Exit Charge (as a percentage of _____) _____%

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Current Form N-1A Fee Table	Proposed Form N-1A Fee Summary
Redemption Fee (as a percentage of amount redeemed, if applicable) _____%	Early Exit Fee (as a percentage of amount redeemed) [Up to] _____% (Or [up to] _____, if you invest \$10,000)
Exchange Fee _____%	Exchange Fee [Up to] _____ % (Or [up to] _____, if you invest \$10,000)
Maximum Account Fee _____%	[This item moved to its own heading, see immediately below.]
	Maximum Account Fee [Up to] _____% (Or [up to] _____, if you invest \$10,000)

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Current Form N-1A Fee Table	Proposed Form N-1A Fee Summary
<p>Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)</p>	<p>Ongoing Annual Fees (estimated expenses you pay each year as a percentage of the value of your investment)</p>
<p>Management Fees _____%</p>	<p>Ongoing Annual Fees _____ %</p>
<p>Distribution [and/or Service] (12b-1) Fees _____%</p>	<p>(Or \$____, if you invest \$10,000)</p> <p>Ongoing Annual Fees with Temporary Discount (optional)</p>
<p>Other Expenses _____%</p> <p>_____</p> <p>_____%</p> <p>_____</p> <p>_____%</p> <p>_____</p> <p>_____%</p>	<p>_____%</p> <p>(Or \$____, if you invest \$10,000)</p> <p>*Discount expected to end on [date].</p> <p>[Funds that invest 10% or less of their total assets in acquired funds may omit AFFE²⁷ from the Ongoing Annual Expenses and instead disclose this amount in a footnote.]</p>
<p>Acquired Fund Fees and Expenses _____%</p>	
<p>Total Annual Fund Operating Expenses _____%</p>	
<p>Example</p> <p>This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The</p>	<p>Example</p> <p>This example may help you understand the costs of investing in the Fund. The example assumes that: (1) you invest \$10,000 in the Fund; (2) your investment has a 5% return each year; and (3) the</p>

²⁷ AFFE refers to Acquired Fund Fees and Expenses, which are sales charges that an investor would pay and expenses associated with a fund's investments in another fund. See Proposing Release at 72.

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Current Form N-1A Fee Table	Proposed Form N-1A Fee Summary
<p>Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.</p>	<p>Fund's operating expenses are based on the table above.</p>
<p>Although your actual costs may be higher or lower, based on these assumptions your costs would be:</p> <p>1 year 3 years 5 years 10 years</p> <p>\$___ \$___ \$___ \$___</p>	<p>Although your actual costs may be higher or lower, based on these assumptions, your costs would be:</p> <p>1 year 10 years</p> <p>\$___ \$___</p>
<p>You would pay the following expenses if you did not redeem your shares:</p> <p>1 year 3 years 5 years 10 years</p> <p>\$___ \$___ \$___ \$___</p>	<p>If you sold your shares at the end of the relevant period, your costs would be:</p> <p>1 year 10 years</p> <p>\$___ \$___</p>

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If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

Margery K. Neale

212 728 8297

mneale@willkie.com

Benjamin J. Haskin

202 303 1124

bhaskin@willkie.com

Richard F. Jackson

202 303 1121

rfjackson@willkie.com

Neesa P. Sood

202 303 1232

nsood@willkie.com

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