

CLIENT ALERT

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

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On October 26, 2022, the Securities and Exchange Commission (the “SEC”) adopted rule and form amendments (the “Amendments”) intended to modernize the manner in which open-end investment companies registered under the Investment Company Act of 1940 (the “1940 Act”), including mutual funds and exchange-traded funds (“ETFs”) (together, “open-end funds” or “funds”), make information available to investors.¹ The SEC action focuses primarily on revising the shareholder reports that funds prepare on an annual and semi-annual basis. The Amendments also affect the manner in which all registered investment companies and business development companies (“BDCs”) present fees and expenses in advertisements and sales literature.

I. Overview of the Amendments

- *Annual and Semi-Annual Report Amendments:* The Amendments will require open-end funds to provide shareholders “concise and visually engaging”² annual and semi-annual reports that highlight important

¹ See [Tailored Shareholder Reports for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements](#), Securities Act Release No. 33-11125 (Oct. 25, 2022) (the “Adopting Release”).

² See Item 27A of Form N-1A; See Adopting Release at 6.

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information for retail shareholders to monitor their investments on an ongoing basis, with an estimated length of three to four pages.³

- *Form N-CSR Amendments:* The Amendments will require that funds make available on Form N-CSR and online, information that investors and financial professionals would use in conducting a more in-depth analysis of their investments. This online information includes a fund's schedule of investments, financial statements, financial highlights, and other items.
- *No Reliance on Rule 30e-3 for Open-End Funds:* Open-end funds will be required to send the new streamlined shareholder reports to shareholders and will no longer be able to rely on Rule 30e-3 to provide only notice of such reports. The Amendments do not affect the availability of Rule 30e-3 for closed-end funds and management companies that offer variable annuity contracts.
- *Advertising Amendments:* The Amendments will require that investment company advertisements providing fee or expense figures for the investment company include certain standardized fee and expense figures. These Amendments will apply to all investment companies that are subject to the SEC's advertising rules, including mutual funds, ETFs, registered closed-end funds, and BDCs. The SEC also adopted Amendments that address when representations regarding fees or expenses may be deemed misleading.
- *Proposed Amendments that Were Not Adopted:* In light of comments received, the SEC deferred action on proposed Rule 498B and proposed amendments to funds' prospectus fee and risk disclosure. Under the proposed Rule 498B, new investors would have received a fund prospectus in connection with their initial investment, but funds could have opted into an alternative approach under which they would not deliver annual prospectus updates to investors thereafter. The proposed amendments would have also introduced a simplified "fee summary" and codified SEC staff guidance on principal risk disclosure.

II. Streamlined Shareholder Reports

The SEC's Amendments change the existing disclosure framework for funds and create a new, layered disclosure approach designed to highlight key information for retail investors, while making more detailed information available online and by request for shareholders who want it. The new disclosure approach will tailor the information that investors receive, which the SEC intends will help them to better assess and monitor their investments and make informed decisions. The SEC added new Item 27A to Form N-1A to specify the design and content of funds' annual and semi-annual reports, replacing current Item 27 of Form N-1A. As shareholders in a fund, investors will receive the re-designed annual and semi-annual shareholder reports that the SEC envisions will be more concise and visually engaging and

³ See Adopting Release at n. 369.

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designed to highlight information that the SEC believes is particularly important to retail shareholders, including information about fund expenses, performance, and portfolio holdings. Certain information currently included in annual and semi-annual shareholder reports will be made available online and on request, and filed on Form N-CSR, including the schedule of investments and other financial statements. A few notable changes are outlined below. For a full overview of the final requirements, please see Appendix I at the end of this client alert.

Series and Class Scope. One of the major concerns raised with respect to current shareholder reports is their length and complexity. The SEC noted that this is even more pronounced when a shareholder report covers multiple series of a fund. Accordingly, the Amendments require that fund registrants prepare separate annual and semi-annual reports for each series of a fund. As a result, shareholders will receive reports that address only the series in which they are invested. Further, the Amendments also require that fund registrants prepare shareholder reports for each class of a multiple share class fund.⁴

Management Discussion of Fund Performance. The Amendments will require a fund's annual report to include a narrative discussion of factors that materially affected a fund's performance during the most recent fiscal year. This disclosure must "briefly summarize" the "key" factors that materially affected the fund's performance during the last fiscal year. The instruction will direct funds to use graphics or text features such as bullet lists or tables to present the key factors.

The Amendments retain the requirements for the performance line graph currently included in annual reports, with certain changes. Unlike the proposal, the Amendments include an instruction that requires a fund to present performance for the class covered in the shareholder report. As proposed, the Amendments limit the line graph to the past 10 fiscal years. The SEC also revised the definition of a "broad-based securities market index" as one that represents the overall domestic or international equity or debt markets, as applicable. Funds will be required to include such an index to show investors their performance against the overall market. The Amendments will also permit funds to include a more narrowly based index that reflects the market sectors a fund invests in as a secondary index. This change will apply to the fund's prospectus performance table as well. The Amendments also require that a fund's annual report include a table presenting average annual total returns for the past 1-, 5-, and 10-year periods, for the share class to which the report relates.

Material Fund Changes. The Amendments will require a fund to describe material changes to the fund in the annual report.⁵ Specifically, a fund will be required to describe a material change since the beginning of the reporting period with respect to the following items:

- A change in the fund's name;

⁴ The final rules will require website posting of fund documents that will enable shareholders to obtain information about other share classes.

⁵ Semi-annual reports will not require a discussion of the changes, however, funds will have the option to disclose such information.

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- A change in the fund’s investment objectives or goals;
- A change in the fund’s annual operating expenses, shareholder fees, or maximum account fee, including the termination or introduction of an expense reimbursement or fee waiver arrangement;
- A change in the fund’s principal investment strategies;
- A change in the principal risks of investing in the fund; and
- A change in the fund’s investment adviser(s), including sub-adviser(s).

A fund may describe other material fund changes that it would like to disclose to its shareholders as well as other changes that may be helpful for investors to understand the fund’s operations and/or performance over the reporting period. A fund may also disclose material planned changes in connection with updating its prospectus for the current fiscal year. A fund will have to provide a concise description of each change that provides enough detail to allow shareholders to understand the change and how it may affect shareholders.

For items not on the list, a fund should determine materiality based on the “facts and circumstances of the fund and the specific change,”⁶ and the SEC has provided factors funds could consider. These factors include the nature of the change, whether it reflects a material change in the way the fund is currently being managed, whether it reflects a material change in the fund’s risk profile, which section(s) of the prospectus the change affects, and how likely the change would be to influence a shareholder’s decision to continue to invest in the fund.⁷

Householding. Rule 30e-1 currently permits, and the Amendments will continue to permit, the householding of fund shareholder reports if, in addition to the other conditions set out in the rule, the fund has obtained from each shareholder written or implied consent to the householding of shareholder reports at such address. The rule will continue to require funds that wish to household shareholder reports based on implied consent to send a notice to each shareholder stating that the shareholders in the household will receive one report in the future unless the investors provide contrary instructions. At least once per year, funds relying on the householding provision must explain to shareholders who have provided written or implied consent how they can revoke their consent. A fund can satisfy this annual notice requirement by including a statement in the annual report.

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

To streamline the shareholder reports of open-end funds and have them focus on information that the SEC believes is of most interest to retail investors, the SEC determined that the following information, currently required to be included in

⁶ See Adopting Release at 105.

⁷ *Id.*

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such reports, must instead be included in a fund's Form N-CSR filings and made available online for those interested in the more detailed information:

- financial statements (note however that the schedule of investments will still be presented in a shareholder report through the fund's graphical representation of holdings);
- financial highlights (the Amendments require that a fund must disclose its expense ratio, net assets and portfolio turnover rate in the annual and semi-annual report);
- full disclosure regarding changes in and disagreements with accountants (note however that the shareholder report will only include a high-level summary);
- matters submitted for a shareholder vote;
- remuneration paid to directors, officers and others;
- the basis for the board's approval of the advisory contracts; and
- the fund's full schedule of investments.

The Amendments will require a fund to post online all of the information that is newly required on Form N-CSR, and will require a fund (and an applicable financial intermediary) to deliver such 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. In a change from the proposal, a fund will have to make this information available on a website from 60 days after the end of the relevant fiscal period until 60 days following the next respective fiscal period. Funds will continue to have 70 days to file the complete Form N-CSR with the SEC.

As proposed, a fund (other than a money market fund) will have 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.⁸ Funds are 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, all open-end funds are not 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 EDGAR. As adopted, a fund will have to make this information available within 60 days after the close of each such quarter. A fund's portfolio holdings information for its first and third fiscal quarters must remain publicly accessible online for a full fiscal year. This portfolio holdings information will complement the second and fourth fiscal quarter portfolio holdings information that funds must make

⁸ 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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available on a website and on Form N-CSR (as part of the requirement to make their financial statements available online).

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

The Amendments narrow the scope of Rule 30e-3 to exclude investment companies registered on Form N-1A. Accordingly, open-end funds will be required to send the new streamlined shareholder reports to shareholders and will not be permitted to only provide notice of such reports. It is also important to note that under the amended Rule 30e-3, variable insurance contract separate accounts registered as unit investment trusts will not be permitted to rely on Rule 30e-3 to satisfy their shareholder report transmission requirements with respect to underlying funds registered on Form N-1A. Currently, subject to certain requirements, Rule 30e-3 generally permits investment companies to satisfy shareholder report transmission requirements by making these reports and other materials available online and providing a notice of that availability instead of directly transmitting them to shareholders by mail or electronically.

The SEC also rescinded Rule 30e-1(d), which permits a fund to transmit a copy of its prospectus or Statement of Additional Information (“SAI”) in place of its shareholder report, if either or both documents include all of the information that is required to be in the shareholder report.

V. Advertising Rule Amendments for Investment Company Fees and Expenses

The SEC Amendments to Rules 482 and 433 under the Securities Act of 1933, and Rule 34b-1 under the 1940 Act will require all registered investment companies that include fee or expense figures in an advertisement or sales literature to provide that information in a standardized way. Under the Amendments, these figures also must adhere to certain prominence and timeliness requirements. These rules apply to all registered investment companies and business development companies. Additionally, the SEC adopted Amendments to Rule 156 that address when representations regarding fees or expenses may be deemed misleading.

Fee and Expense Information. The SEC amended Rule 482 by adding two additional subsections to the current Rule.⁹ Under the Amendments to Rule 482, investment company advertisements providing fee and expense figures will be required to include: (1) the maximum amount of any sales load, or any other nonrecurring fee; and (2) the total annual expenses without any fee waiver or expense reimbursement arrangement.¹⁰ Advertisements may include other, non-standardized, fee and expense information, provided that the required information is given at least equal prominence.

⁹ See Adopting Release at 307.

¹⁰ These requirements will only apply to investment company advertisements that include fee and expense figures, and therefore, an advertisement will not need to include the required fee and expense figures if it only included general, narrative information about fee and expense considerations. Similarly, these requirements would be inapplicable if an investment company (such as a variable insurance contract separate account) does not present total annual expense figures in its prospectus.

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Advertisements may include a fund's total annual expenses net of fee waiver or expense reimbursement arrangement amounts, but they also must include the arrangement's expected termination date. Finally, fee and expense information contained in an advertisement must be as of the date of the investment company's most recent prospectus or, if the company no longer has an effective registration statement, as of the date of its most recent annual shareholder report. A fund may choose to provide more current information, if available.

The SEC also adopted Amendments to Rule 433, which applies to free writing prospectuses by registered closed-end funds and BDCs, and Rule 34b-1, which applies to supplemental sales literature by any registered open-end company, registered unit investment trust, or registered face-amount certificate company, to incorporate Rule 482's presentation and timeliness requirements for fees and expenses. The Amendments to Rule 34b-1 provide that sales literature would be deemed to have omitted a fact necessary to make statements not materially misleading unless the sales literature meets the requirements regarding fee and expense information described above.

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 Amendments are designed to address the SEC's concerns about funds that market themselves as "zero expense" or "no expense funds" without mentioning other costs that investors would incur.¹¹ Investors may incur certain costs and fees that, despite providing revenue to the adviser and its affiliates, are not direct costs of investing in a fund and so are not reflected in the fund's expense ratio, and therefore may be less transparent or clear to certain investors. For example, an investor may incur intermediary costs, such as wrap fees that an investor pays to the sponsor of a wrap fee program for investment advice, brokerage services, administrative expenses, or other fees and expenses.

The SEC amended Rule 156 to provide that representations about fees or expenses associated with an investment in the fund could be misleading because of statements or omissions made involving a material fact, including situations (such as the wrap fee example above) where portrayals of the fees and expenses associated with an investment in the fund omit explanations, qualifications, limitations, or other statements necessary or appropriate to make the portrayals not misleading. Whether a statement involving a fund's fees and expenses is materially misleading depends on an evaluation of the context in which it is made. Additionally, the Amendments will apply to all investment company sales literature, regardless of whether the investment company's prospectus contains total annual expense figures. Thus, it may be materially misleading for a variable contract advertisement to provide the current range of fees and charges that could be assessed without also indicating the maximum range of those fees and charges.¹²

¹¹ See Adopting Release at 187.

¹² *Id.* at 188.

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VI. Form N-1A Amendments

The SEC also adopted Amendments to Form N-1A to update the current SAI requirement to provide the age and length of service for a fund's officers and directors to allow funds to instead disclose for each officer and director the birth year and the year their service began. The SEC also adopted a similar instruction for the length of service for portfolio managers that must be disclosed in the prospectus to permit a fund to disclose the year the portfolio manager's service began.

VII. Compliance Date

The Amendments will be effective 60 days after publication in the Federal Register. Funds will have 18 months after the effective date to comply with the new requirements, except for the Amendments to Rule 156 regarding misleading statements in investment company sales literature, which compliance will be required as of the effective date.

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Appendix I - Shareholder Report Requirements

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

Scope, Format and Presentation of 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. Additionally, each fund must prepare and transmit a shareholder report that covers the single class of a multiple-class fund in which the shareholder is invested.• The information in a shareholder report must be presented in the same order as the information appears in Item 27A of Form N-1A.• Generally, a fund can only include the information that Item 27A of Form N-1A specifically permits or requires in its shareholder reports. However, if a fund's particular circumstances may cause the required disclosures to be misleading, the fund may add additional information to the report that is necessary to make the required disclosure items not misleading.• If a required disclosure is inapplicable, a fund will be permitted to omit the disclosure, and a fund similarly may modify a required legend or narrative information if the modified language contains comparable information to what is otherwise required.• A fund will not be permitted to incorporate by reference any information into its shareholder report.• Funds will be permitted to provide additional information to shareholders in the same transmission as the shareholder report, so long as the shareholder report is given greater prominence than any other materials included in the same transmission, except for certain specified disclosures.¹³• While the Amendments to the shareholder reports will only apply to open-end funds, the SEC is waiting to evaluate the impact of recently adopted changes to the disclosure framework for closed-end funds and management investment companies that offer variable annuity contracts before proposing additional changes that would affect these investment companies.¹⁴

¹³ The Fund's annual or semi-annual shareholder report may be accompanied by other materials, but the annual or semi-annual shareholder report must be given greater prominence than other materials that accompany the report, with the exception of other shareholder reports, summary prospectuses or statutory prospectuses, or a notice of internet availability of proxy materials under Rule 14a-6 under the Securities Exchange Act. See Instruction 12 to Item 27A(a) of amended Form N-1A.

¹⁴ See Adopting Release at 50.

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Scope, Format and Presentation of Shareholder Report for Open-End Funds	
Format and Presentation	<ul style="list-style-type: none">• The SEC expects that funds generally will be able to reduce the length of shareholder reports to approximately 3-4 pages (although it did not adopt a word or page limit).• Requires the use of plain English in a format addressed to the investor, and encourages the graphical presentation of information.• Legibility requirements for printed reports.• Instructions encourage funds to consider using, as appropriate, question-and-answer format, charts, graphs, tables, bullet lists, and other graphics or text features as a way to help provide context for the information presented.
Content of 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: “This annual shareholder report contains important information about [the Fund] for the period of [beginning date] to [end date]. You can find additional information about the Fund at [Fund website address]. You can also request this information by contacting us at [toll-free telephone number and, as applicable, email address].”• Statement in Material Fund Changes in the Shareholder Report. If provided, a fund will have to include the following prominent statement in boldface type: “This report describes changes to the Fund that occurred during the reporting period.”

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Content of Shareholder Report for Open-End Funds							
Expense Example	<ul style="list-style-type: none"> Funds will be required to provide a table showing the expenses associated with a hypothetical \$10,000 investment in the fund during the preceding reporting period in two formats: (1) as a percent of a shareholders investment in the fund (i.e., expense ratio), and (2) as a dollar amount. The simplified expense table is as follows: <p>What were the Fund costs for the last [year/six months]? (based on a hypothetical \$10,000 investment)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="width: 30%;">[Fund or Class Name]</th> <th style="width: 30%;">Cost of a \$10,000 investment</th> <th style="width: 40%;">Costs paid as a percentage of a \$10,000 investment</th> </tr> </thead> <tbody> <tr> <td></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> If a fund incurred any “extraordinary expenses” during the reporting period, the fund may briefly describe, in a footnote to the expense table, what the actual expenses would have been if these extraordinary expenses were not incurred. If a fund is a feeder fund, the fund must reflect the aggregate expenses of the feeder fund and the master fund in the expense table and include a footnote stating that the expense table reflects the expenses of both the feeder and the master funds. If a fund’s shareholder report covers a period of time that is less than the full reporting period, the fund must include a footnote to the table noting this and explaining that expenses for a full reporting period would be higher than the figures shown. 	[Fund or Class Name]	Cost of a \$10,000 investment	Costs paid as a percentage of a \$10,000 investment		\$	%
[Fund or Class Name]	Cost of a \$10,000 investment	Costs paid as a percentage of a \$10,000 investment					
	\$	%					
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. <i>MDFP Narrative.</i> 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. The Amendments will not allow funds to include any additional information—such as a fund president’s letter to shareholders, interviews with portfolio managers, general market commentary, and other similar information—in the shareholder report. 						

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Content of Shareholder Report for Open-End Funds

- Performance Line Graph and Table
 - Line Graph. 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. The Amendments include an instruction that requires a fund to present performance information for the class covered in the shareholder report.
 - Appropriate Broad-Based Securities Market Index. The SEC adopted the definition of an “appropriate broad-based securities market index” to mean an index that represents “the overall applicable domestic or international equity or debt markets, as appropriate.”¹⁵ A fund will 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 are encouraged to use additional indexes, such as blended indexes or narrower indexes.¹⁶
 - Performance Table. The current performance table presenting a fund’s average annual total returns for the past 1-, 5-and 10-year periods must 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 for the share class covered in the shareholder report. The Amendments include a new instruction allowing funds to add brief additional disclosure that will contextualize the line graph and average annual returns table. Finally, the Amendments require funds that provide updated performance information through widely accessible mechanisms, such as fund websites, to include a statement in the shareholder report directing shareholders to where they can find this information.¹⁷
- Stable Distribution Policy. A fund with a policy to maintain a specified level of distributions must disclose *only* if it was unable to maintain the specified level during the past fiscal year, along with information on distributions resulting in return of capital.
- The Amendments do not require money market funds to include MDFP. The rules will permit money market funds to retain the current option of including MDFP discussion in their

¹⁵ 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.

¹⁶ To further illustrate an index that would satisfy the rules, a fund investing primarily in the equity securities of a non-U.S. country may use an index representing the overall equity market of the non-U.S. country to satisfy the final rule’s requirements.

¹⁷ If a fund were to include such a statement, it would also be required to provide a hyperlink to where the information may be found if the shareholder report is provided electronically, or a URL or QR code if the shareholder report is delivered in paper format.

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Content of Shareholder Report for Open-End Funds	
	shareholder reports so long as the information meets the requirements of the relevant item, and related instructions on the form, and is not incomplete, inaccurate, or misleading.
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, (3) portfolio turnover rate, and (4) the total advisory fees paid by the fund during the reporting period. Multiple class funds should calculate statistics in light of the requirement that a shareholder report cover the single class in which a shareholder is invested. • To calculate total advisory fees paid, the fund will be required to disclose the amount of investment advisory fees that are payable to the investment adviser and disclosed in the fund's statement of operations. The total advisory fees should include any reductions or reimbursements of such fees. • Permits funds to disclose any additional statistics that the fund believes would help shareholders better understand the fund's activities and operation during the reporting period (e.g., tracking error, maturity, duration, average credit quality, or yield). The required fund statistics must precede any additional permitted statistics the fund chooses to include. • If a fund provides a statistic also required under Form N-1A, the fund must follow Form N-1A instructions describing the calculation method for such statistic. • Funds are encouraged to use tables, bullet lists, or other graphics or text features to present the statistics. • If a statistic is included in, or could be derived from, a fund's financial statements or financial highlights, the Amendments require a fund to derive such statistic from the fund's most recent financial statements or financials highlights. • Funds are permitted to briefly describe the significance or limitations of any disclosed statistics, however, the final rules do not permit such description to be placed in a footnote. • Any additional statistics included are to be reasonably related to the fund's investment strategy.
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. • Disclose graphical representation of holdings using categories, and with a basis of presentation that are reasonably designed to depict clearly the types of investments made by the fund, given its investment objectives. • Funds are permitted to show holdings based on total exposure to particular categories of investments.

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Content of Shareholder Report for Open-End Funds	
	<ul style="list-style-type: none"> • The Amendments may base the tabular or graphical representation of holdings on the fund's total exposure to particular categories of investments. The rules will not allow funds to base this presentation only on the fund's net exposure to particular categories of investments. For example, a fund that holds both long and short positions and chooses to use total exposure as a basis for presenting the fund's graphical representation of holdings must depict the long and short exposures to each category of investments separately. • Funds may disclose, in a table or chart that appears near the fund's graphical representation of holdings, their largest 10 portfolio holdings.
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 since the beginning of the reporting period. A fund may, but is not required to, disclose material changes it plans to make in connection with its annual prospectus update. This is intended to highlight for a shareholder the key changes to his or her investment. <ul style="list-style-type: none"> ➢ Under Item 27A of Form N-1A, a fund will 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 will have discretion to disclose additional material changes outside of the foregoing enumerated items. ➢ Materiality will 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 only a high-level summary of the change in the annual report as the exact disclosure may be subject to further modification. ➢ Termination or introduction of an expense reimbursement or fee waiver arrangement should be disclosed.
Changes in and Disagreements with Accountants	<ul style="list-style-type: none"> • Requires only a high-level summary of any changes and disagreements. • When a fund has a material disagreement with an accountant that has resigned or been dismissed, the fund will be required to include in its annual report: (1) a statement of whether the former accountant resigned, declined to stand for re-election, or was dismissed and the date thereof; and (2) a brief, plain English description of disagreement(s) with the former accountant during the fund's two most recent fiscal years and any subsequent period that the fund discloses on Form N-CSR.

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Content of Shareholder Report for Open-End Funds	
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 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">Permits, but does not require, funds to explain in their annual report to shareholders who have consented to householding how to revoke consent to the householding of the annual report.

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

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