incurred during the period. The staff also recommended that mutual funds disclose the cost in dollars, based on the fund's actual expenses, associated with an investment of $ 10,000 that earned a standardized return (*e.g.,* 5%) for the period. This would permit investors to compare the relative magnitudes of the ongoing costs of different funds.

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Today's proposals address these important issues. They are intended to improve the information disclosed to investors about a fund's investments, by enhancing and streamlining the information provided in reports to shareholders about a fund's portfolio holdings and by requiring funds to disclose their portfolio holdings quarterly rather than semi-annually. In addition, our proposals are targeted at heightening investors' understanding of ongoing fund fees and expenses.

II. DISCUSSION

A. Disclosure of Portfolio Holdings

The Commission is proposing rule and form amendments that would: (1) permit a fund to include a summary portfolio schedule in its reports to shareholders, provided that the complete portfolio schedule is filed with the Commission semi-annually on proposed Form N-CSR and is provided to shareholders upon request, free of charge; (2) exempt money market funds from including a portfolio schedule in reports to shareholders, provided that this information is filed with the Commission on proposed Form N-CSR and is provided to shareholders upon request, free of charge; (3) require reports to shareholders to include a tabular or graphic presentation of a fund's portfolio holdings by identifiable category; and (4) require a fund to file its complete portfolio schedule as of the end of its first and third fiscal quarters with the Commission on new proposed Form N-Q. Together, these proposals would replace a one-size-fits-all approach to portfolio holdings disclosure, where all funds deliver their full portfolio schedules to all their shareholders twice a year, with a "layered" approach that would make more information available while permitting funds to tailor their shareholder reports to their particular circumstances and investors to tailor the amount of information they receive to meet their particular needs. This "layered" approach is intended to result in the availability of enhanced portfolio information at reduced cost. . . .

B. Disclosure of Fund Expenses

We are proposing to require mutual funds to disclose in their reports to shareholders fund expenses borne by shareholders during the reporting period. Fund shareholder reports would be required to include: (1) the cost in dollars associated with an investment of $ 10,000, based on the fund's actual expenses and return for the period; and (2) the cost in dollars, associated with an investment of $ 10,000, based on the fund's actual expenses for the period and an assumed return of 5 percent per year. The first figure is intended to permit investors to estimate the actual costs, in dollars, that they bore over the reporting period. The second figure is intended to provide investors with a basis for comparing the level of current period expenses at different funds. Together, the two expense figures in the proposed example are designed to increase investor understanding of the fees that they pay on an ongoing basis for investing in a fund.

The proposed disclosure in shareholder reports would supplement the fee disclosure required in the mutual fund prospectus. Funds are currently required to include in their prospectuses a fee table that includes, as a percentage of fund assets, all fees and charges associated with a mutual fund investment. The fee table reflects both (1) charges paid directly by a shareholder out of his or her investment, such as front-and back-end sales loads, and (2) recurring charges deducted from fund assets, such as management and 12b-1 fees. The fee table is accompanied by a numerical example that illustrates the aggregate expenses that an investor could expect to pay over time on a $ 10,000 investment if he or she received a 5 percent annual return and remained in the fund for 1-, 3-, 5-, and 10-year periods.

The numbers that we are proposing be disclosed in mutual fund shareholder reports are intended to provide information to investors about actual current period expenses. This disclosure would respond to concerns that have been raised regarding the degree to which investors understand the nature and effect of these ongoing fees. While some have advocated that this information should be provided on an individualized basis in shareholder account statements, our proposals are intended to strike an appropriate balance between investors' need for this information and the costs and burdens that would be associated with providing this information on an individualized basis. . . .

C. Management's Discussion of Fund Performance ("MDFP")

We are proposing to require that MDFP, which is currently required for all mutual funds other than money market funds, be included in annual reports to shareholders. Currently, a mutual fund is required to include MDFP in its prospectus unless the information is included in the fund's latest annual report to shareholders. At the time we adopted MDFP, our authority to directly require information in annual reports was circumscribed. Mutual funds, however, typically include MDFP in their annual reports, and we believe that requiring MDFP to be included in the annual report would aid investors in assessing the fund's performance over the prior year, and would fit naturally with other "backward looking" information contained in the annual report, such as the fund's financial statements. We now have broad authority to prescribe the content of shareholder reports, and we propose to require MDFP in annual reports to shareholders. . . .

Discussion Topic

As an investor how important to you is the information contained in the annual and semi-annual reports? What type of periodic information would you like to receive?

In the 1960s and 1970s the amount of securities held by institutional investors led to concerns that their dominance may create undesirable effects in the securities markets.[1]

In 1968 Congress, concerned about "the lack of adequate data respecting the increased amount of securities held and traded by institutional investors," authorized a study on the effects of these investors on the markets.[2] The SEC concluded from the study that in view of the growth of these investors in the equity markets, timely information about their holdings and transactions was necessary.[3]

Consequently, in 1975 Congress enacted section 13(f) of the 1934 Act, the Institutional Investors Full Disclosure Act.[4] Section 13(f) generally requires an "institutional investment manager" with investment discretion over accounts of at least $100 million in equity securities (or such lesser amount as the SEC may determine, not less than $10 million) to file periodic reports with the SEC, including such information as the name of each issuer, the number of shares held, and their fair market value. In addition, for accounts over which the manager has investment discretion, the SEC may require similar disclosure about the securities and transactions involving the accounts, including more detailed disclosure for transactions involving at least $500,000 in securities (or other amount determined by the SEC). The SEC may exempt managers or securities from the requirements.

The legislation was supported by the SEC[5] and generally supported by the Investment Company Institute.[1] The New York Stock Exchange generally supported

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[1] 2 *Institutional Investors Full Disclosure Act: Hearings Before the Subcomm. on Sec. of the S. Comm. On Banking, Hous. & Urban Affairs,* 93d Cong. 217, 218-20 (statement of Securities Industry Association).

2 *Id.* at 19, 20 (statement of Ray Garrett, Jr., Chairman, SEC).

3 *Id.* at 20.

4 Securities Acts Amendments of 1975, Pub. L. No. 104-29, § 10, 89 Stat. 97, 119-21 (codified at 15 U.S.C. § 77m(f) (2000)).

5 Institutional Investors Full Disclosure Act: Hearings on S. 2234 and S. 2683 Before the Subcomm. on Sec. of the S. Comm. on Banking, Hous. & Urban Affairs, 93d Cong. 19, 20 (statement of Ray Garrett, Jr., Chairman, SEC).