

THE REVIEW OF
**SECURITIES & COMMODITIES
REGULATION**

AN ANALYSIS OF CURRENT LAWS AND REGULATIONS
AFFECTING THE SECURITIES AND FUTURES INDUSTRIES

Vol. 56 No. 9

May 10, 2023

SEC MODERNIZES CONTENT AND DELIVERY REQUIREMENTS FOR MUTUAL FUND SHAREHOLDER REPORTS

This article discusses the SEC's newly adopted requirements for mutual fund shareholder reports. It outlines the context in which the new requirements were adopted and provides a detailed description of what has changed, both with respect to the reports themselves and the requirements for how these reports will be delivered. The article concludes with a brief discussion of the implications for funds and their service providers and suggests potential next steps.

By Lance C. Dial, Amy McDonald, and Jonathan Nowakowski *

Mutual fund annual shareholder reports do not typically top the must-read list of even the most avid mutual fund investor. No doubt this is due, at least in part, to the fact that these reports, in their current incarnation, are long (the average report weighing in at 134 pages, with some exceeding 1,000 pages), dense, and challenging to navigate — at least according to the investors who responded to the 2018 Securities and Exchange Commission (“SEC”) request for comments on the retail fund investor experience.

Faced with such feedback, the SEC has taken action. On October 26, 2022, the SEC issued revised requirements for mutual fund shareholder reports (the “New Rules”). These New Rules will streamline the information included in shareholder reports, extend the SEC’s use of “layered disclosure” by requiring concise shareholder report disclosure, and move some information out of shareholder reports entirely. In sum, the SEC expects that shareholder reports issued under these New Rules will be significantly shorter, weighing in at three or four pages; clearer, owing to the use of

enhanced visuals and required plain-English disclosure; and easier to navigate, by tailoring the reports to the specific funds and share classes relevant to the investor. While it remains unlikely that even these revised shareholder reports will find places on bestseller lists, these changes represent the most significant revisions to these documents since the adoption of Form N-CSR back in 2003.

In addition to the modifications to content and presentation of shareholder reports, the New Rules include some other important revisions. First, the New Rules eliminate the ability for mutual funds to rely on SEC Rule 30e-3 for shareholder reports, which allowed for electronic delivery of reports via a notice-and-access model. In addition, the New Rules include a new requirement that funds compare their performance to an “appropriate broad-based index,” and place new limitations on how fees and expenses can be presented in fund sales literature.

* LANCE C. DIAL is a partner at Morgan, Lewis & Bockius LLP's Boston office. Amy McDonald and Jonathan Nowakowski are associates at Morgan, Lewis & Bockius LLP. Their e-mail addresses are lance.dial@morganlewis.com, amy.mcdonald@morganlewis.com, and jonathan.nowakowski@morganlewis.com.

INSIDE THIS ISSUE

- **HOW DO CHIEF COMPLIANCE OFFICERS PREPARE FOR DOJ'S NEW COMPLIANCE CERTIFICATION POLICY, Page 127**