

Shareholders Need Useful Information

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"Disclosure creep" is back.

Two years ago, Securities and Exchange Commission regulators enacted the [most sweeping reforms](#) ever of the disclosure rules governing mutual fund prospectuses. By providing an easy-to-read document, regulators and fund companies hoped to assist investors in making informed investment decisions. Legal gobbledy-gook was replaced with plain English. But the regulators warned us that keeping the clutter from creeping back would be a challenge. They were right.

The SEC is now turning its attention to simplifying shareholder reports, a welcome development supported by the fund industry. But others are threatening to overwhelm the goal of this initiative. As the SEC has warned us, everyone has an opinion about what constitutes "key" information. But if all of these opinions were accommodated, the result would be anything but simple.

The Investment Company Institute and its members have periodically considered whether funds should be required to provide investors with a listing of the fund's securities more than twice a year, as the law currently requires. Each time, we've reached the same conclusion: the proposal is a solution in search of a problem.

The fact is that many fund companies already provide portfolio information more frequently than the law requires. But do index fund investors need such a list more than twice a year? How about shareholders with international funds, or bond funds? Or those whose holdings are in long-term retirement accounts? Institute research shows that the typical equity fund investor is attracted to funds precisely because they provide professional investment expertise.

Requiring more frequent reporting of a fund's portfolio holdings carries the risk of encouraging short-term trading. Perhaps even more important is the prospect that long-term shareholders could be harmed by short-term speculators who could more easily front-run a fund for their own personal advantage.

The bottom line is that portfolio disclosure can be improved. A good start would be to provide more information about a fund's investments by category, with graphics illustrating the relative weight of these holdings. Requiring more frequent listings of the fund's investment portfolio would take us in the wrong direction.

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