



# Federal Register

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**Wednesday,  
March 17, 2004**

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## **Part III**

# **Securities Exchange Commission**

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**17 CFR Parts 239, 249, 270 and 274  
Disclosure Regarding Portfolio Managers  
of Registered Management Investment  
Companies; Proposed Rule**

## SECURITIES AND EXCHANGE COMMISSION

### 17 CFR Parts 239, 249, 270 and 274

[Release Nos. 33-8396; 34-49398; IC-26383; File No. S7-12-04]

RIN 3235-AJ16

### Disclosure Regarding Portfolio Managers of Registered Management Investment Companies

**AGENCY:** Securities and Exchange Commission.

**ACTION:** Proposed rule.

**SUMMARY:** The Securities and Exchange Commission is proposing amendments to its forms under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940 to improve the disclosure provided by registered management investment companies regarding their portfolio managers. The proposals would extend the existing requirement that a registered management investment company provide basic information in its prospectus regarding its portfolio managers to include the members of management teams. The proposals would also require a registered management investment company to disclose additional information about its portfolio managers, including other accounts they manage, compensation structure, and ownership of securities in accounts they manage.

**DATES:** Comments should be submitted on or before May 21, 2004.

**ADDRESSES:** Comments may be submitted electronically or by paper. Electronic comments may be submitted by: (1) electronic form on the SEC Web site (<http://www.sec.gov>) or (2) e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Mail paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. All submissions should refer to File No. S7-12-04; this file number should be included on the subject line if e-mail is used. To help us process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov>). Comments are also available for public inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, NW., Washington, DC 20549. We do not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

**FOR FURTHER INFORMATION CONTACT:** Sanjay Lamba, Attorney, or Paul G. Cellupica, Assistant Director, Office of Disclosure Regulation, Division of Investment Management, (202) 942-0721, at the Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0506.

**SUPPLEMENTARY INFORMATION:** The Securities and Exchange Commission ("Commission") is proposing for comment amendments to Form N-1A,<sup>1</sup> Form N-2,<sup>2</sup> and Form N-3,<sup>3</sup> registration forms used by management investment companies to register under the Investment Company Act of 1940 ("Investment Company Act") and to offer their securities under the Securities Act of 1933 ("Securities Act"); and amendments to Form N-CSR<sup>4</sup> under the Investment Company Act and the Securities Exchange Act of 1934 ("Exchange Act"), the form used by registered management investment companies to file certified shareholder reports with the Commission.

#### Table of Contents

- I. Background
  - II. Discussion
    - A. Identification of Portfolio Management Team Members
    - B. Disclosure Regarding Other Accounts Managed, Potential Conflicts of Interest, and Policies and Procedures to Address Conflicts
    - C. Disclosure of Portfolio Manager Compensation Structure
    - D. Disclosure of Securities Ownership of Portfolio Managers
    - E. Removal of Exclusion for Index Funds
    - F. Disclosure of Availability of Information
    - G. Amendment of Form N-CSR
    - H. Compliance Date
  - III. General Request for Comments
  - IV. Paperwork Reduction Act
  - V. Cost/Benefit Analysis
  - VI. Consideration of Burden on Competition; Promotion of Efficiency, Competition, and Capital Formation
  - VII. Initial Regulatory Flexibility Analysis
  - VIII. Consideration of Impact on the Economy
  - IX. Statutory Authority
- Text of Proposed Rule and Form Amendments

#### I. Background

Registered management investment companies ("funds")<sup>5</sup> typically are

<sup>1</sup> 17 CFR 239.15A and 274.11A.

<sup>2</sup> 17 CFR 239.14 and 274.11a-1.

<sup>3</sup> 17 CFR 239.17a and 274.11b.

<sup>4</sup> 17 CFR 249.331 and 274.128.

<sup>5</sup> Management investment companies typically issue shares representing an undivided proportionate interest in a changing pool of securities, and include open-end and closed-end companies. See T. Lemke, G. Lins, A. Smith III, Regulation of Investment Companies, Vol. I, ch. 4, § 4.04, at 4-5 (2002). An open-end company is a management company that is offering for sale or has outstanding any redeemable securities of which it

externally managed by an investment adviser, to which they pay an advisory fee from fund assets. The investment adviser in turn employs and compensates the individuals who act as portfolio managers for the fund. Our rules require funds to disclose in their prospectuses certain information concerning their portfolio managers. Fund prospectuses are required to include the name, title, length of service, and business experience of the individuals who are primarily responsible for the day-to-day management of the fund.<sup>6</sup> If a committee, team, or other group is jointly and primarily responsible for management of the fund, the fund must provide disclosure to the effect that the fund's investments are managed by that group, but need not provide the names of the members of the group.<sup>7</sup>

Recently, several areas of concern have been identified with respect to the disclosure that funds provide about their portfolio managers. First, concerns have been raised regarding the lack of disclosure about the individual members of portfolio management teams.<sup>8</sup> Some have argued that disclosure that a fund uses a team management approach, without identification of team members, can be a convenient way to avoid disclosing who runs the fund and how long or briefly they have been in place. Further, the use of a management team potentially permits a fund to change managers frequently, without appearing prone to manager turnover.

Second, concerns have been raised about potential conflicts of interest between the interests of shareholders in a fund that a portfolio manager oversees, and the interests of other clients and investment vehicles, such as hedge funds and pension funds, that a portfolio manager may also oversee.<sup>9</sup> For example, it has been argued that

is the issuer. A closed-end company is any management company other than an open-end company. See Section 5 of the Investment Company Act [15 U.S.C. 80a-5]. Open-end companies generally offer and sell new shares to the public on a continuous basis. Closed-end companies generally engage in traditional underwritten offerings of a fixed number of shares and, in most cases, do not offer their shares to the public on a continuous basis.

<sup>6</sup> Item 5(a)(2) of Form N-1A; Item 9.1.c of Form N-2.

<sup>7</sup> Instruction 2 to Item 5(a)(2) of Form N-1A; Instruction 2 to Item 9.1.c of Form N-2.

<sup>8</sup> See, e.g., Ian McDonald, *Ghost Rider: Who's Running Your Fund*, TheStreet.com, Jan. 28, 2002; Tom Lauricella, *Should Mutual-Fund Managers Be Named?—Firms List Teams, Saying Move Keeps Shareholder Costs Down; Others Utilize Web Sites*, *Filings The Wall Street Journal*, May 17, 2002, at C1.

<sup>9</sup> See, e.g., Stephen Schurr, *Two Masters Are One Too Many for Fund Firms*, TheStreet.com, Nov. 26, 2003.

because hedge fund performance fees typically are much higher than mutual fund fees, a portfolio manager who manages a mutual fund and a hedge fund may have an incentive to give preferential treatment to hedge fund investors in allocating new investment opportunities. Other conflict of interest issues raised by managing mutual fund and hedge fund businesses may include trading-execution priorities, and the potential for the hedge fund to take advantage of material inside information regarding the mutual fund's portfolio holdings. Concerns regarding these types of conflicts of interest were noted in the Commission's recent staff report on the hedge fund industry.<sup>10</sup>

Third, some have suggested that information regarding the compensation of portfolio managers should be disclosed.<sup>11</sup> Advocates of this disclosure argue that a portfolio manager's compensation structure can influence how the manager runs the fund. For example, a portfolio manager's bonuses may be linked to the amount of fund assets under management, which may provide an incentive for the manager to focus more on bringing assets into the fund than on meeting the fund's investment objective. Concerns have also been raised regarding compensation bonuses based on short-term performance, which may create incentives for a fund manager to take greater risks than usual in an effort to meet short-term performance goals.

Finally, some have argued that it would be useful to fund investors to require disclosure of the securities holdings of portfolio managers, similar to the disclosure currently required regarding directors' holdings of fund shares.<sup>12</sup> They have suggested that disclosure of a portfolio manager's holdings in a fund would provide a

strong signal of his or her alignment with the interest of fund shareholders.<sup>13</sup> They argue, for example, that portfolio managers may have a greater incentive to keep management fees low and to consider the tax consequences of their trading activity if they themselves are invested in the fund they manage. These advocates also claim that disclosure of fund ownership could provide investors with insight into the level of confidence that a manager has in the investment strategy of the fund.

The Commission is mindful of these concerns, and we have concluded that increased transparency of information about fund portfolio managers, including their identity, incentives, and potential conflicts of interest, may assist investors in evaluating fund management and making investment decisions. In order to address these concerns, we are proposing amendments that would require improved disclosure regarding portfolio managers. Our proposals would:

- Require a fund to identify in its prospectus each member of a committee, team, or other group of persons that is jointly and primarily responsible for the day-to-day management of the fund's portfolio;
- Require a fund to provide information in its Statement of Additional Information ("SAI")<sup>14</sup> regarding other accounts managed by any of its portfolio managers, including a description of conflicts of interest that may arise in connection with simultaneously managing the fund and the other accounts;
- Require a fund to disclose in its SAI the structure of, and the method used to determine, the compensation of each portfolio manager;
- Require a fund to disclose in its SAI each portfolio manager's ownership of securities in the fund and other accounts, including investment companies, managed by the portfolio manager, the fund's investment adviser, or any person controlling, controlled by, or under common control with an investment adviser or principal underwriter of the fund; and
- Require a closed-end fund to provide disclosure regarding its portfolio managers in its reports on Form N-CSR.

<sup>13</sup> See, e.g., Martha Graybow, *Fund Watchers Want Managers to 'Eat Own Cooking'*, Reuters News Service, July 18, 2003.

<sup>14</sup> The SAI is part of a fund's registration statement and contains information about a fund in addition to that contained in the prospectus. The SAI is required to be delivered to investors upon request and is available on the Commission's Electronic Data Gathering, Analysis, and Retrieval System.

These proposed amendments are intended to provide greater transparency regarding portfolio managers, their incentives in managing a fund, and the potential conflicts of interest that may arise when they or the advisers that employ them also manage other investment vehicles.<sup>15</sup>

## II. Discussion

### A. Identification of Portfolio Management Team Members

We are proposing amendments to Forms N-1A and N-2, the registration forms for mutual funds and closed-end funds, that would require those funds to identify in their prospectuses each member of a committee, team, or other group of persons associated with the fund's investment adviser that is jointly and primarily responsible for the day-to-day management of the fund's portfolio.<sup>16</sup> Currently, if a committee, team, or other group is jointly and primarily responsible for management of a fund, Forms N-1A and N-2 require the fund to provide disclosure that the fund's investments are managed by a group, but the fund need not provide the names of the members of the group.<sup>17</sup> The proposed amendments would require funds to state the name, title, length of service, and business experience of each member of a portfolio management team. The proposals would also require the fund to provide a brief description of each member's role on the management team (e.g., lead member).<sup>18</sup> We believe that this enhanced disclosure regarding management team members could help investors better evaluate the identity, background, and experience of fund management in cases where the fund is managed using a team approach.

We are also proposing to amend Form N-3, the registration form for insurance company managed separate accounts

<sup>15</sup> A fund is currently required to provide portfolio manager disclosure regardless of whether the portfolio manager is employed by the investment adviser or a sub-adviser. This would continue under the proposed rules. See Section 2(a)(20)(B) of the Investment Company Act [15 U.S.C. 80a-2(a)(20)(B)] ("investment adviser" includes any person who provides investment advice to an investment company under a contract with an investment adviser to the company).

<sup>16</sup> Proposed Item 5(a)(2) and Instruction 2 to Item 5(a)(2) of Form N-1A; proposed Item 9.1.c and Instruction to Item 9.1.c of Form N-2.

<sup>17</sup> Instruction 2 to Item 5(a)(2) of Form N-1A; Instruction 2 to Item 9.1.c of Form N-2.

<sup>18</sup> Proposed Instruction 2 to Item 5(a)(2) of Form N-1A; proposed Instruction to Item 9.1.c of Form N-2. The proposed amendments would also delete current Instructions 3 and 4 to Item 5(a)(2) of Form N-1A, which provide additional guidance as to the disclosure obligations of funds for which day-to-day management responsibilities are shared between a portfolio management team and an individual.

<sup>10</sup> Implications of the Growth of Hedge Funds, Staff Report to the U.S. Securities and Exchange Commission, at 83-85 (Sept. 2003).

<sup>11</sup> See, e.g., Statement of John C. Bogle, *Oversight Hearing on the Mutual Fund and Investment Advisory Industry Before the U.S. Senate Governmental Affairs Committee, Subcommittee on Financial Management*, 108th Cong., 1st Sess. (Nov. 3, 2003); Jason Zweig, *The Great Fund Rip-Off*, Money, Oct. 1, 2003, at 51; Jason Burton, *Ten Things Mutual Funds Aren't Telling You*, CBS Marketwatch.com, Aug. 1, 2003.

<sup>12</sup> See, e.g., Michael Maiello, *Is Your Fund Manager Any Good? What the Ads Won't Tell You*, FORBES, Feb. 2, 2004, at 100; Karen Damato, *With Mutual Funds, Is the Investor No. 1—A Few Touchstones Can Assist In Judging Whose Interests Carry The Most Weight With Managers*, The Wall Street Journal, Sept. 5, 2003, at C1. See also Investment Company Act Release No. 24816 (Jan. 2, 2001) [66 FR 3734 (Jan. 16, 2001)]; Item 22(b)(5) of Schedule 14A; Item 12(b)(4) of Form N-1A; Item 18.7 of Form N-2; Item 20(f) of Form N-3 (requiring disclosure of dollar range of each director's ownership in each fund that he or she oversees).

that issue variable annuity contracts, to require disclosure regarding portfolio managers. The required disclosure would be similar to the disclosure that would be required by Forms N-1A and N-2, including disclosure regarding the members of portfolio management teams.<sup>19</sup> Currently, Form N-3 does not require disclosure about portfolio managers.

*We request comment generally on the proposed disclosure requirements regarding members of portfolio management teams and the proposed amendments to Form N-3 and specifically on the following issues:*

- Should we require identification and disclosure with respect to all of the members of a portfolio management team or only certain members, *e.g.*, the lead member?
- Are the proposed disclosure requirements regarding members of portfolio management teams appropriate? Should all of the proposed disclosure requirements be required with respect to every member of a portfolio management team? Is “jointly and primarily responsible” the appropriate standard to use in connection with portfolio management teams or should we use a different standard?
- Should we require any additional information to be disclosed concerning portfolio management teams and their members, such as information about the team’s structure and decision-making process?
- Is the fund prospectus the appropriate location for the proposed disclosure regarding members of portfolio management teams, or should this disclosure be provided in other locations, *e.g.*, SAI, shareholder reports, or Form N-CSR?
- Is the proposal to require managed separate accounts issuing variable annuities to provide prospectus disclosure regarding their portfolio managers appropriate?

#### *B. Disclosure Regarding Other Accounts Managed, Potential Conflicts of Interest, and Policies and Procedures To Address Conflicts*

We are proposing to require a fund to provide disclosure in its SAI regarding other accounts for which the fund’s portfolio manager is primarily responsible for the day-to-day portfolio management.<sup>20</sup> This disclosure is designed to enable investors to assess the conflicts of interest to which a

portfolio manager may be subject as a result of managing the fund and other portfolios, such as hedge funds and other registered investment companies. If a committee, team, or other group that includes the portfolio manager is jointly and primarily responsible for the day-to-day management of an account, the fund would be required to include that account in responding to the proposed disclosure requirement.<sup>21</sup>

We are proposing to require that this disclosure, and the other new disclosure that we are proposing with respect to portfolio managers, be located in the SAI. If the information were included in the prospectus, it might tend to obscure other, more basic information that is key to an investment decision, such as investment objectives and strategies, risks, and fees and charges. However, disclosure in the SAI will be readily accessible to investors who desire this information, because funds are required to provide an SAI promptly to any investor who requests one.<sup>22</sup> We note that we are also proposing amendments to encourage funds to provide greater access to this information in the SAI.<sup>23</sup>

The proposals would require a fund to disclose the number of other accounts managed by a portfolio manager, and the total assets in the accounts, within each of the following categories: registered investment companies; other investment companies; other pooled investment vehicles; and other accounts.<sup>24</sup> For each such category, the fund would also be required to disclose the number of accounts and the total assets in the accounts with respect to which the advisory fee is based on account performance.<sup>25</sup>

The proposals would also require the fund to describe any conflicts of interest that may arise in connection with the portfolio manager’s management of the fund’s investments, on the one hand, and the investments of the other accounts, on the other.<sup>26</sup> This description would include, for example, conflicts between the investment

strategy of the fund and the investment strategy of the other accounts managed by the portfolio manager and conflicts in allocation of investment opportunities between the fund and such other accounts. In addition, the fund would be required to include a description of the policies and procedures used by the fund or the fund’s adviser to address any such conflicts. In this regard, we note that we recently adopted new rules that require investment advisers to implement policies and procedures that address conflicts arising from management of multiple funds and accounts, such as the allocation of investment opportunities and the allocation of aggregated trades.<sup>27</sup> In order to mitigate the burden for a fund of preparing descriptions of its policies and procedures, the proposals would permit a fund to include a copy of the policies and procedures used to address conflicts of interest, rather than a description of the policies and procedures.<sup>28</sup>

*We request comment generally on the proposals regarding other accounts managed by a fund’s portfolio manager, and in particular on the following issues:*

- Are our proposed disclosure requirements with respect to other accounts managed by a portfolio manager appropriate? Is there any additional information about these other accounts that we should require to be disclosed? For example, should we require funds to identify some or all of the other accounts managed by their portfolio managers?
- Are our proposed disclosure requirements with respect to conflicts of interest that may arise in connection with managing a fund and managing other accounts appropriate? Is there any additional information that we should require with respect to these potential conflicts of interest? Should we require disclosure with respect to actual conflicts of interest that occurred as a result of managing a fund and other accounts? If so, where?
- In the case of a fund with a portfolio management team, should we require the proposed disclosure regarding other accounts managed by a portfolio manager with respect to every

<sup>19</sup> Proposed Instruction 2 to Item 15(a) of Form N-1A; proposed Instruction 2 to Item 21.1 of Form N-2; proposed Instruction 2 to Item 22(a) of Form N-3.

<sup>22</sup> Instruction 3 to Item 1(b)(1) of Form N-1A; General Instructions to “Part B: Statement of Additional Information” and Item 33.6 of Form N-2; Item 37(d) of Form N-3.

<sup>23</sup> See Section II.F. “Disclosure of Availability of Information,” *infra*.

<sup>24</sup> Proposed Item 15(a)(2) of Form N-1A; proposed Item 21.1.b of Form N-2; proposed Item 22(a)(ii) of Form N-3.

<sup>25</sup> Proposed Item 15(a)(3) of Form N-1A; proposed Item 21.1.c of Form N-2; proposed Item 22(a)(iii) of Form N-3.

<sup>26</sup> Proposed Item 15(a)(4) of Form N-1A; proposed Item 21.1.d of Form N-2; proposed Item 22(a)(iv) of Form N-3.

<sup>27</sup> See Investment Company Act Release No. 26299 (Dec. 17, 2003) [68 FR 74714, 74716 (Dec. 24, 2003)] (adopting rule 206(4)-7 under the Investment Advisers Act of 1940 and rule 38a-1 under the Investment Company Act).

<sup>28</sup> Proposed Instruction 3 to Item 15(a) of Form N-1A; proposed Instruction 3 to Item 21.1 of Form N-2; proposed Instruction 3 to Item 22(a) of Form N-3.

<sup>19</sup> Proposed Item 6(e) of Form N-3.

<sup>20</sup> Proposed Item 15(a) of Form N-1A; proposed Item 21.1 of Form N-2; proposed Item 22(a) of Form N-3.

member of the team or only certain team members, *e.g.*, the lead member?

- Is the SAI the appropriate location for the proposed disclosure regarding other accounts managed by a portfolio manager, or should this disclosure be provided in other locations, *e.g.*, prospectus, shareholder reports, or Form N-CSR?
- Is disclosure of the potential conflicts in this area sufficient or should the Commission prohibit portfolio managers of registered management investment companies from managing certain types of accounts?

#### C. Disclosure of Portfolio Manager Compensation Structure

We are proposing to require a fund to provide disclosure in its SAI regarding the structure of, and the method used to determine, the compensation of its portfolio managers.<sup>29</sup> This disclosure may help investors better understand a portfolio manager's incentives in running a fund and may also shed light on possible conflicts of interest that could arise when a portfolio manager manages other accounts.

The proposals would require a description of the structure of, and the method used to determine, the compensation received by a fund's portfolio manager from the fund, its investment adviser, or any other source with respect to management of the fund and any other account included by the fund in response to the proposed disclosure requirement described above regarding other accounts managed by the portfolio manager.<sup>30</sup> For purposes of this disclosure, compensation would include, without limitation, salary, bonus, deferred compensation, and pension and retirement plans and arrangements, whether the compensation is cash or non-cash.<sup>31</sup> For each type of compensation (*e.g.*, salary, bonus, deferred compensation, retirement plans and arrangements), the fund would be required to include a description of the criteria on which that type of compensation is based, for example, whether compensation is fixed, whether compensation is based

on fund pre-or after-tax performance over a certain time period, and whether compensation is based on the value of assets held in the fund's portfolio.<sup>32</sup> This description would be required to clearly disclose any differences between the method used to determine the portfolio manager's compensation with respect to the fund and other accounts, *e.g.*, if the portfolio manager receives part of an advisory fee that is based on performance with respect to some accounts but not the fund, this would be required to be disclosed.<sup>33</sup>

We are not proposing to require disclosure of the value of compensation paid to a portfolio manager.<sup>34</sup> Some have suggested that the amount of compensation received by portfolio managers should be disclosed, just as operating companies are required to disclose executive compensation.<sup>35</sup> However, the most direct mutual fund analogue to the compensation of an operating company's executive officers is the compensation of the investment adviser. The advisory fee, which is the amount paid by fund shareholders for portfolio management services, is currently required to be fully disclosed, including as part of the fee table of the fund's prospectus.<sup>36</sup> Individual portfolio managers typically are employees of a fund's investment adviser and are compensated by the adviser. For that reason, information about the compensation of a fund's portfolio managers would be useful to investors primarily because it would help them to assess the managers' incentives and whether their interests are aligned with shareholders, not because it would help them better understand the amount being paid from fund assets for management services.

<sup>29</sup> Proposed Item 15(b) of Form N-1A; proposed Item 21.2 of Form N-2; proposed Item 22(b) of Form N-3.

<sup>30</sup> Proposed Instruction 3 to Item 15(b) of Form N-1A; proposed Instruction 3 to Item 21.2 of Form N-2; proposed Instruction 3 to Item 22(b) of Form N-3.

<sup>31</sup> *Id.*

<sup>32</sup> See, *e.g.*, Russel Kinnel, *Fund Investors Should Demand Equality*, Morningstar.com, Aug. 6, 2001. Cf. Item 402 of Regulation S-K [17 CFR 229.402] (requiring disclosure of all compensation paid to certain named executive officers, including the registrant's chief executive officer and the most highly compensated officers other than the chief executive officer).

<sup>33</sup> See Item 3 and Instruction 3(a) to Item 3 of Form N-1A, Item 3.1 and Instruction 7.a to Item 3.1 of Form N-2, and Item 3(a) and Instruction 13 to Item 3(a) of Form N-3 (disclosure of amount of advisory fee); Item 5(a)(1)(ii) of Form N-1A and Item 9.1.b.(3) of Form N-2 (requiring description of investment adviser's compensation); Item 14(a)(3) of Form N-1A, Item 20.1.c of Form N-2, and Item 21(a)(iii) of Form N-3 (requiring disclosure in fund's SAI regarding method of calculating the advisory fee payable to the fund).

*We request comment generally on the proposed requirement to disclose the structure of, and the method used to determine, the compensation of portfolio managers, and in particular on the following issues:*

- Is our proposed requirement that a fund disclose the structure of, and the method used to determine, the compensation of each portfolio manager appropriate? Is there any additional information about portfolio manager compensation that we should require to be disclosed? Should we require disclosure of the actual amount of compensation paid to a portfolio manager?

• In the case of a fund with a portfolio management team, should we require the proposed disclosure regarding portfolio manager compensation with respect to every member of the team or only certain team members, *e.g.*, the lead member?

- Is the SAI the appropriate location for the proposed disclosure regarding portfolio manager compensation, or should this disclosure be provided in other locations, *e.g.*, prospectus, shareholder reports, or Form N-CSR?

#### D. Disclosure of Securities Ownership of Portfolio Managers

We are proposing to require a fund to disclose in its SAI the ownership of securities of each of its portfolio managers in the fund and in other accounts, including investment companies, managed by the fund's investment adviser or the portfolio manager.<sup>37</sup> This disclosure could help investors to assess the extent to which the portfolio manager's interests are aligned with theirs, as well as the level of confidence that a manager has in the investment strategy of the fund. In addition, this disclosure could assist fund investors in assessing potential conflicts of interest between their interests and the interests of other clients or investment vehicles in which the manager has an interest.

The proposed disclosure requirement would apply to securities owned beneficially or of record in: (i) the fund; (ii) other accounts that the fund included in response to the proposed disclosure requirement described above regarding other accounts managed by the portfolio manager;<sup>38</sup> and (iii) any

<sup>37</sup> Proposed Item 15(c) of Form N-1A; proposed Item 21.3 of Form N-2; proposed Item 22(c) of Form N-3. Cf. Item 12(b)(4) of Form N-1A; Item 18.7 of Form N-2; Item 20(f) of Form N-3 (requiring disclosure of director's beneficial ownership of equity securities in funds overseen by director in a fund complex).

<sup>38</sup> See Section II.B, "Disclosure Regarding Other Accounts Managed," *supra*.

<sup>29</sup> Proposed Item 15(b) of Form N-1A; proposed Item 21.2 of Form N-2; proposed Item 22(b) of Form N-3.

<sup>30</sup> See Section II.B, "Disclosure Regarding Other Accounts Managed," *supra* (describing proposal to require disclosure regarding other accounts for which the fund's portfolio manager is primarily responsible for day-to-day portfolio management); proposed Instruction 3 to Item 15(b) of Form N-1A; proposed Instruction 3 to Item 21.2 of Form N-2; proposed Instruction 3 to Item 22(b) of Form N-3.

<sup>31</sup> Proposed Instruction 2 to Item 15(b) of Form N-1A; proposed Instruction 2 to Item 21.2 of Form N-2; proposed Instruction 2 to Item 22(b) of Form N-3.

other account, including an investment company, managed by an investment adviser of the fund, or by any person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the fund.<sup>39</sup> With respect to managed separate accounts issuing variable annuity contracts, securities subject to disclosure would also include securities in any investment company or account managed or sponsored by the sponsoring insurance company, or by any person directly or indirectly controlling, controlled by, or under common control with the sponsoring insurance company.<sup>40</sup> This disclosure would apply to securities owned by each portfolio manager and his immediate family members. For purposes of this disclosure, "immediate family member" would mean a person's spouse; child residing in the person's household (including step and adoptive children); and any dependent of the person, as defined in section 152 of the Internal Revenue Code.<sup>41</sup> The proposals would deem a person to be a "beneficial owner" of a security if he or she is a "beneficial owner" under either rule 13d-3 under the Exchange Act, which focuses on a person's voting and investment power, or rule 16-1(a)(2) under the Exchange Act, which focuses on a person's economic interests in a security.<sup>42</sup>

Our proposals would require the fund to provide the securities ownership information in a tabular format, including: (1) The name of the portfolio manager; (2) the account in which the portfolio manager or immediate family member owns securities; (3) the title of the class of securities owned; and (4) the dollar range of securities owned. The information in the table would be required to be provided on an aggregate basis for each portfolio manager and his immediate family members.<sup>43</sup>

<sup>39</sup> Proposed Item 15(c) of Form N-1A; proposed Item 21.3 of Form N-2; proposed Item 22(c) of Form N-3.

Where a portfolio manager owns shares in one or more series of a mutual fund that issues two or more series of preferred or special stock each of which is preferred over all other series in respect of assets specifically allocated to that series, the portfolio manager's securities ownership would be disclosed by series and not in the aggregate for the mutual fund.

<sup>40</sup> Proposed Item 22(c)(iii) of Form N-3.

<sup>41</sup> Proposed Instruction 4 to Item 15(c) of Form N-1A; proposed Instruction 4 to Item 21.3 of Form N-2; proposed Instruction 4 to Item 22(c) of Form N-3.

<sup>42</sup> Proposed Instruction 2 to Item 15(c) of Form N-1A; proposed Instruction 2 to Item 21.3 of Form N-2; proposed Instruction 2 to Item 22(c) of Form N-3; 17 CFR 240.13d-3; 17 CFR 240.16a-1(a)(2).

<sup>43</sup> Proposed Instruction 3 to Item 15(c) of Form N-1A; proposed Instruction 3 to Item 21.3 of Form N-

We are proposing to require disclosure of the dollar range of securities owned by portfolio managers, similar to the disclosure required for fund directors' ownership of equity securities in the funds they oversee.<sup>44</sup> Under our proposals, funds would be required to disclose portfolio managers' ownership of securities using the following dollar ranges: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000, or over \$1,000,000.<sup>45</sup> Disclosure of the dollar range of securities owned by a portfolio manager, rather than precise dollar holdings, could provide shareholders with significant information to use in evaluating whether a manager's interests are aligned with their own, while protecting managers' legitimate privacy interests.<sup>46</sup> The maximum range proposed (over \$1,000,000) is intended to reflect a level of investment that would be significant. It is also intended to be high enough to permit investors to compare the relative stakes of the manager in different accounts. If, for example, we used a maximum range of over \$100,000, an investment of \$100,001 and an investment of \$5,000,000 would be reflected as the same level of investment.<sup>47</sup> This might not provide sufficient information for an investor to compare a portfolio manager's stakes in the fund managed and other accounts managed, such as hedge funds.

Under our proposals, the required information about a portfolio manager's ownership of securities, as well as the information regarding other accounts managed and compensation structure, would be required to be provided as of the end of the fund's most recently completed fiscal year.<sup>48</sup> However, in the case of an initial registration statement

2; proposed Instruction 3 to Item 22(c) of Form N-3.

<sup>44</sup> See Item 12(b)(4) of Form N-1A; Item 18.7 of Form N-2; Item 20(f) of Form N-3.

<sup>45</sup> Proposed Instruction 5 to Item 15(c) of Form N-1A; proposed Instruction 5 to Item 21.3 of Form N-2; proposed Instruction 5 to Item 22(c) of Form N-3.

<sup>46</sup> Cf. Investment Company Act Release No. 24816 (Jan. 2, 2001) [66 FR 3734, 3741 (Jan. 16, 2001)] (explaining reasons for requiring disclosure of a director's holdings of securities using dollar ranges rather than an exact dollar amount).

<sup>47</sup> Cf. Instruction 4 to Item 12(b)(4) of Form N-1A; Instruction 4 to Item 18.7 of Form N-2; Instruction 4 to Item 20(f) of Form N-3 (requiring disclosure of directors' equity securities ownership using the following dollar ranges: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, or over \$100,000).

<sup>48</sup> Proposed Instruction 1 to each of Items 15(a), (b) and (c) of Form N-1A; proposed Instruction 1 to each of Items 21.1, 21.2, and 21.3 of Form N-2; proposed Instruction 1 to each of Items 22(a), (b), and (c) of Form N-3.

or an update to a fund's registration statement that discloses a new portfolio manager, information with respect to any newly identified portfolio manager would be required to be provided as of the most recent practicable date.<sup>49</sup> The date as of which the information is provided would be required to be disclosed. In effect, this would mean that a fund would be required to disclose changes to this information with respect to a previously identified portfolio manager once a year, as part of its post-effective amendment that is an annual update to its registration statement.<sup>50</sup> A fund would not be required to update its SAI during the year for each change in any of the required information regarding a previously identified portfolio manager, such as changes in the securities that a portfolio manager or his or her immediate family members own. The costs of requiring a fund to update its SAI under these circumstances could outweigh the benefits to investors.

*We request comment generally on the proposed requirement to disclose the ownership of securities of portfolio managers and in particular on the following issues:*

- Is our proposed requirement that a fund disclose the ownership of securities of each portfolio manager with respect to each account managed by the portfolio manager as well as his ownership in other accounts managed by the investment adviser (or any person controlling, controlled by, or under common control with an investment adviser or principal underwriter of the fund) appropriate? Is the group of accounts that are covered appropriate, too broad, or too narrow? Is there any additional information about the ownership of securities of portfolio managers that should be required to be disclosed?

- Should we require disclosure of the dollar range of securities owned by the portfolio manager or would disclosure of the actual value be more appropriate? If a dollar range is appropriate, what should the required ranges be? Are the proposed ranges appropriate? Would a higher maximum range better differentiate between interests in different accounts (e.g., a \$1,000,001 interest versus a much larger interest, e.g., \$25,000,000)? Or would it be

<sup>49</sup> This would include an update to a mutual fund's registration statement that adds a new series to the fund.

<sup>50</sup> In the case of a change in portfolio manager, however, a fund would be required to update its registration statement to disclose the change and provide information about the new manager as necessary to comply with its obligations under the Securities Act.

sufficient for the highest maximum range to begin at a lower level (e.g., over \$100,000)?

- Should we also or instead require a fund to disclose the percentage of a portfolio manager's net worth that is invested in securities of the fund or other accounts? If so, what should be included in the calculation of a portfolio manager's net worth (e.g., net worth of immediate family members)?

- What is the most effective means for disclosing the relative magnitudes of a portfolio manager's interest in each of the accounts in which he owns securities? For example, should we require a fund to disclose, for each account listed in the table, the percentage that the value of the manager's interest in the account represents of the aggregate value of the manager's interest in all accounts listed in the table?

- Should we require that the disclosure of securities owned differentiate between securities that a portfolio manager is required to own as a condition of employment and securities that are owned voluntarily?

- Are there any types of securities to which the proposed disclosure requirement should not apply, e.g., should we limit the disclosure to equity securities?

- Should disclosure be required with respect to securities beneficially owned under either the definition in rule 13d-3 under the Exchange Act or the definition in rule 16a-1(a)(2) under the Exchange Act, or is one definition more appropriate for purposes of this disclosure requirement? Should the disclosure requirement apply to record ownership of securities?

- Should we require disclosure with respect to securities owned by immediate family members of portfolio managers? If so, should we broaden the definition of "immediate family member" to include, for example, the portfolio's manager's parents, siblings, in-laws, and children not residing with the manager? Should we limit the definition to, for example, the portfolio manager's spouse?

- In the case of a fund with a portfolio management team, should we require the proposed disclosure regarding ownership of securities of portfolio managers with respect to every member of the team or only certain team members?

- Is the SAI the appropriate location for the proposed disclosure regarding securities ownership of portfolio managers, or should this disclosure be provided in other locations, e.g., prospectus, shareholder reports, or Form N-CSR?

- Should we require this securities ownership information, as well as information regarding other accounts managed and compensation structure discussed above, to be provided as of the end of the fund's most recently completed fiscal year, or should this information be required as of another date, e.g., most recent calendar year end or most recent practicable date prior to filing a new registration statement or an update to an existing registration statement? Is updating this information once a year for previously identified managers, as proposed, sufficient or should it be updated more frequently? If more frequent updates should be required, how frequent should they be? In the case of an initial registration statement, or an update to a fund's registration statement that discloses a new portfolio manager, should we require information with respect to any newly identified portfolio manager to be provided as of the most recent practicable date or some other date, e.g., most recent calendar-or fiscal year-end?

#### *E. Removal of Exclusion for Index Funds*

We are proposing to remove the current provision in Form N-1A that excludes a fund that has as its investment objective replication of the performance of an index from the requirement to identify and provide disclosure regarding its portfolio managers.<sup>51</sup> Portfolio manager disclosure was originally intended to permit investors to assess the background and experience of portfolio managers, and to evaluate the extent of a manager's responsibility for the previous investment success (or lack thereof) of the fund before making an investment decision.<sup>52</sup> Index funds were excluded from the requirement because the portfolio management of such funds is, to some extent, mechanical.<sup>53</sup>

Our current proposals, however, require disclosure regarding portfolio managers not in order to help investors assess the portfolio manager's contribution to the fund's investment success, but rather to shed light on the manager's alignment with investors' interests and on potential conflicts of interest. Concerns about the alignment of portfolio managers and their conflicts

of interest are important to investors in index funds, as they are for fund investors generally. Conflicts of interest may arise, for example, in determining trading execution priorities when a portfolio manager for an index fund also manages an actively-managed fund that invests in some of the same securities as the index fund. In addition, it can be difficult to determine whether a fund tracks a designated index sufficiently closely to qualify for the exclusion. As a result, we are proposing to remove the exclusion of index funds from portfolio manager disclosure.

*We request comment on the proposed removal of the exclusion for index funds from providing portfolio manager disclosure and specifically on the following issues:*

- Should we remove the exclusion for index funds? Should portfolio managers of index funds be subject to all of the proposed disclosure requirements regarding portfolio managers or only some of the proposed requirements?

- Is the fund prospectus the appropriate location for the disclosure regarding the name, title, length of service, and business experience of a portfolio manager of index funds? Should this disclosure be provided in other locations, e.g., SAI or Form N-CSR?

- Should we also remove the provision excluding money market funds from the requirement to identify and provide disclosure regarding their portfolio managers?

#### *F. Disclosure of Availability of Information*

In order to assist investors in finding the additional information about portfolio managers that would be required in the SAI under our proposals, we are proposing to require a fund to state in its prospectus that the SAI provides additional information about portfolio managers' compensation, other accounts managed by the portfolio managers, and the portfolio managers' ownership of securities in the fund and other accounts managed by the investment adviser or the portfolio managers.<sup>54</sup> This disclosure would be required to appear adjacent to the disclosure identifying the portfolio managers.

We are also proposing to require that the back cover page of a mutual fund's

<sup>51</sup> Instruction 1 to Item 5(a)(2) of Form N-1A.

<sup>52</sup> See Investment Company Act Release No. 17294 (Jan. 8, 1990) [55 FR 1460, 1467 (Jan. 16, 1990)] (proposing requirement in Form N-1A for portfolio manager disclosure).

<sup>53</sup> See Investment Company Act Release No. 19382 (Apr. 6, 1993) [58 FR 19050, 19052 (Apr. 15, 1993)] (adopting requirement in Form N-1A for portfolio manager disclosure).

<sup>54</sup> Proposed Item 5(a)(2) of Form N-1A; proposed Item 9.1.c of Form N-2; proposed Item 6(e) of Form N-3. With respect to managed separate accounts registered on Form N-3, registrants would also be required to disclose that the SAI provides additional information about portfolio managers' securities ownership in other accounts managed or sponsored by the sponsoring insurance company.



prospectus state whether the fund makes available its SAI and annual and semi-annual reports, free of charge, on or through its Web site at a specified Internet address.<sup>55</sup> If a mutual fund does not make its SAI and shareholder reports available in this manner, the fund would be required to disclose the reasons why it does not do so (including, where applicable, that the fund does not have an Internet Web site). We are also proposing amendments to Forms N-2 and N-3 that would require similar disclosure on the front cover page of the prospectus for closed-end funds and insurance company managed separate accounts that issue variable annuity contracts.<sup>56</sup> In addition, the proposed amendments to Forms N-2 and N-3 would require that the front cover page of the prospectus include a statement explaining how to obtain the fund's shareholder reports, and a toll-free (or collect) telephone number for investors to call to request the fund's SAI, annual and semi-annual reports, and other information, and to make shareholder inquiries. They would also change from optional to mandatory disclosure of the Commission's Internet Web site address. These requirements are similar to existing requirements of Form N-1A.<sup>57</sup>

These proposals are intended to encourage funds to provide greater access for investors to the SAI, including the additional disclosure regarding portfolio managers that we are proposing, and also to fund shareholder reports. Modernizing the disclosure system under the Federal securities laws involves recognizing the importance of the Internet in fostering prompt and more widespread dissemination of information.<sup>58</sup> We believe that mutual fund disclosure should be more readily available to investors in a variety of locations to facilitate investor access to that information. We also believe that it is important for funds to make investors aware of the different sources that provide access to information about a fund.

*We request comment on the proposed requirements regarding availability of information.*

<sup>55</sup> Proposed Item 1(b)(1) of Form N-1A.

<sup>56</sup> Proposed Item 1.1.d of Form N-2; proposed Item 1(a)(vi) of Form N-3.

<sup>57</sup> See Items 1(b)(1) and 1(b)(3) of Form N-1A.

<sup>58</sup> See Securities Act Release No. 8128 (Sept. 5, 2002) [67 FR 58480 (Sept. 16, 2002)] (adopting requirement for an operating company to disclose in its annual report on Form 10-K whether it makes available free of charge on or through its Web site its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments).

### G. Amendment of Form N-CSR

Because closed-end funds do not offer their shares continuously, and are therefore generally not required to maintain an updated SAI to meet their obligations under the Securities Act of 1933,<sup>59</sup> we are proposing to require closed-end funds to provide disclosure regarding their portfolio managers in their annual reports on Form N-CSR.<sup>60</sup> This would include the basic information (name, title, length of service, and business experience), as well as the disclosure that we are proposing regarding other accounts managed by a portfolio manager, compensation structure, and ownership of securities.<sup>61</sup> A closed-end fund would be required to disclose any change in its portfolio managers, and to provide all of the required portfolio manager disclosure for any newly identified portfolio manager, in its semi-annual reports on Form N-CSR.<sup>62</sup>

The disclosure in Form N-CSR with respect to the name, title, length of service, and business experience of a portfolio manager would be required to be current as of the date of filing of the report, and the disclosure regarding other accounts managed, compensation structure, and securities ownership generally would be required to be current as of the end of the fund's most recently completed fiscal year.<sup>63</sup> In the case of a newly identified portfolio manager in an annual or semi-annual report, however, this disclosure would be required to be current as of the most recent practicable date.<sup>64</sup> This would result in basic information about a closed-end fund's portfolio manager in Form N-CSR that is current on the date of filing, and would make the date with respect to which other disclosure about a portfolio manager is provided consistent with the requirements for the SAI in Forms N-1A, N-2, and N-3.

*We request comment on the proposed amendments to Form N-CSR regarding portfolio managers and specifically on the following issues:*

<sup>59</sup> Pursuant to rule 8b-16(b) under the Investment Company Act [17 CFR 270.8b-16(b)], closed-end funds are not required to file amendments to their registration statements (including their SAIs) in order to comply with their Investment Company Act registration obligations, provided that they include specified information in their annual reports to shareholders.

<sup>60</sup> Proposed Item 8 of Form N-CSR.

<sup>61</sup> Proposed Item 8(a) of Form N-CSR.

<sup>62</sup> Proposed Item 8(b) of Form N-CSR.

<sup>63</sup> Proposed Instruction 1 to Item 8(a)(1), proposed Instruction 1 to Item 8(a)(2), proposed Instruction 1 to Item 8(a)(3), and proposed Instruction 1 to Item 8(a)(4) of Form N-CSR.

<sup>64</sup> Proposed Instruction 1 to Item 8(a)(1), proposed Instruction 1 to Item 8(a)(2), proposed Instruction 1 to Item 8(a)(3), proposed Instruction 1 to Item 8(a)(4), and proposed Item 8(b) of Form N-CSR.

- Is the proposal to require closed-end funds to provide disclosure regarding their portfolio managers in reports on Form N-CSR appropriate? Should a closed-end fund be required to disclose changes in its portfolio managers in its semi-annual reports on Form N-CSR? Should disclosure of changes in a closed-end fund's portfolio managers be required on a more frequent basis? If so, where?

- Should we require a closed-end fund to provide the basic information about a portfolio manager in its annual reports on Form N-CSR as of the date of filing of the report or some other date, e.g., most recent practicable date or most recent fiscal year end? Should disclosure in the annual report regarding other accounts managed, compensation structure, and securities ownership be required as of the end of the fund's most recently completed fiscal year, or should this information be required as of another date, e.g., most recent practicable date or most recent calendar year end? Should this disclosure with respect to any newly identified portfolio manager in an annual report on Form N-CSR be required as of the most recent practicable date, or as of another date, e.g., most recent fiscal year end?

- Should a closed-end fund be required to provide all of the required portfolio manager disclosure for any newly identified portfolio manager in its semi-annual reports on Form N-CSR? Should the basic information about a portfolio manager in semi-annual reports on Form N-CSR be required as of the date of filing of the report, or some other date, e.g., most recent practicable date or end of the most recent fiscal half-year? Should other disclosure regarding portfolio managers in semi-annual reports on Form N-CSR be required as of the most recent practicable date, or as of another date, e.g., most recently completed fiscal half-year or most recent calendar year end? Should a closed-end fund be required to update semi-annually the information about each of its portfolio managers in its annual report on Form N-CSR?

### H. Compliance Date

If we adopt the proposed disclosure requirements, we expect to require all new registration statements and annual reports on Form N-CSR, and all post-effective amendments that are annual updates to effective registration statements, filed on or after the effective date of the amendments to comply with the proposed amendments. We would also expect to require post-effective amendments that add a new series, filed on or after the effective date, to comply



with the proposals with respect to the new series. The Commission requests comment on these proposed compliance dates.

### III. General Request for Comments

The Commission requests comment on the amendments proposed in this release, whether any further changes to our rules or forms are necessary or appropriate to implement the objectives of our proposed amendments, and on other matters that might have an effect on the proposals contained in this release.

### IV. Paperwork Reduction Act

Certain provisions of the proposed amendments contain "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995 [44 U.S.C. 3501, *et seq.*], and the Commission is submitting the proposed collections of information to the Office of Management and Budget ("OMB") for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. The titles for the collections of information are: (1) "Form N-1A under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Open-End Management Investment Companies"; (2) "Form N-2 under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Closed-End Management Investment Companies"; (3) "Form N-3—Registration Statement of Separate Accounts Organized as Management Investment Companies"; and (4) "Form N-CSR—Certified Shareholder Report of Registered Management Investment Companies." An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

Form N-1A (OMB Control No. 3235-0307), Form N-2 (OMB Control No. 3235-0026), and Form N-3 (OMB Control No. 3235-0316) were adopted pursuant to Section 8(a) of the Investment Company Act [15 U.S.C. 80a-8(a)] and Section 5 of the Securities Act [15 U.S.C. 77e]. Form N-CSR (OMB Control No. 3235-0570) was adopted pursuant to Section 30 of the Investment Company Act [15 U.S.C. 80a-29] and Sections 13 and 15(d) of the Exchange Act [15 U.S.C. 78m and 78o(d)].

We are proposing amendments to Forms N-1A, N-2, and N-3 to require funds to provide improved disclosure regarding their portfolio managers in fund prospectuses and SAs. The proposals also would amend Form N-CSR to require similar disclosure for

closed-end funds in reports on Form N-CSR.

#### Form N-1A

Form N-1A, including the proposed amendments, contains collection of information requirements. The likely respondents to this information collection are open-end funds registering with the Commission. Compliance with the disclosure requirements of Form N-1A is mandatory. Responses to the disclosure requirements are not confidential.

The current hour burden for preparing an initial registration statement on Form N-1A is 812.5 hours per portfolio, and the current annual hour burden for preparing post-effective amendments on Form N-1A is 104.5 hours per portfolio. The Commission estimates that, on an annual basis, registrants file initial registration statements on Form N-1A covering 483 portfolios, and file post-effective amendments on Form N-1A covering 6,542 portfolios. An additional burden of 35,218 hours is expected to result from the Commission's recent proposed rules relating to frequent purchases and redemptions of fund shares and selective disclosure of portfolio holdings, disclosure of sales load breakpoints, and disclosure of sales loads and revenue sharing in connection with proposed mutual fund confirmation requirements and point of sale disclosure.<sup>65</sup> Thus, the Commission estimates that the current total annual hour burden for the preparation and filing of Form N-1A would be 1,111,298 hours.<sup>66</sup>

We estimate that the proposed amendments would increase the hour burden per portfolio per filing of an initial registration statement by 10 hours and would increase the hour burden per portfolio per filing of a post-effective amendment to a registration statement

<sup>65</sup> See Investment Company Act Release No. 26287 (Dec. 11, 2003) [68 FR 70402 (Dec. 17, 2003)] (disclosure of frequent purchases and redemptions of fund shares and selective disclosure of portfolio holdings); Investment Company Act Release No. 26298 (Dec. 17, 2003) [68 FR 74732 (Dec. 24, 2003)] (disclosure of sales load breakpoints); Investment Company Act Release No. 26341 (Jan. 29, 2004) [69 FR 6438 (Feb. 10, 2004)] (disclosure of sales loads and revenue sharing).

<sup>66</sup> This estimate is based on the following calculation: (812.5 hours × 483 portfolios) + (104.5 hours × 6,542 portfolios) = 1,076,080 hours. Additional annual hour burdens of 30,998 hours resulting from the proposed rules relating to frequent purchases and redemptions and selective disclosure, 2,252 hours resulting from the proposed rules relating to sales load breakpoint disclosure, and 1,968 hours resulting from the proposed rules relating to disclosure of sales loads and revenue sharing in connection with the proposals for new mutual fund confirmation and point of sale disclosure, result in a total annual hour burden of 1,111,298 hours (1,076,080 hours + 30,998 hours + 2,252 hours + 1,968 hours).

by 4 hours. Thus, the incremental hour burden resulting from the proposed amendments relating to portfolio manager disclosure would be 30,998 hours ((10 hours × 483 portfolios) + (4 hours × 6,542 portfolios)). If the proposed amendments to Form N-1A are adopted, the total annual hour burden for all funds for preparation and filing of initial registration statements and post-effective amendments to Form N-1A would be 1,142,296 hours (30,998 hours + 1,111,298 hours).

#### Form N-2

Form N-2, including the proposed amendments, contains collection of information requirements. The likely respondents to this information collection are closed-end funds registering with the Commission. Compliance with the disclosure requirements of Form N-2 is mandatory. Responses to the disclosure requirements are not confidential.

The current hour burden for preparing an initial registration statement on Form N-2 is 548.2 hours per fund, and the current annual hour burden for preparing post-effective amendments on Form N-2 is 107.2 hours per fund. The Commission estimates that, on an annual basis, 234 closed-end funds file initial registration statements on Form N-2, and 38 closed-end funds file post-effective amendments on Form N-2. Thus, the Commission estimates that the current total annual hour burden for the preparation and filing of Form N-2 is 132,352 hours.<sup>67</sup>

We estimate that the proposed amendments would increase the hour burden per filing of an initial registration statement on Form N-2 by 10 hours and would increase the hour burden per filing of a post-effective amendment to a registration statement on Form N-2 by 4 hours. Thus, the incremental hour burden resulting from the proposed amendments relating to portfolio manager disclosure would be 2,492 hours ((10 hours × 234 funds) + (4 hours × 38 funds)). If the proposed amendments to Form N-2 are adopted, the total annual hour burden for all funds for preparation and filing of initial registration statements and post-effective amendments on Form N-2 would be 134,844 hours (2,492 hours + 132,352 hours).

#### Form N-3

Form N-3, including the proposed amendments, contains collection of information requirements. The likely

<sup>67</sup> This estimate is based on the following calculation: (548.2 hours × 234 funds) + (107.2 hours × 38 funds) = 132,352 hours.

respondents to this information collection are separate accounts, organized as management investment companies offering variable annuities, registering with the Commission on Form N-3. Compliance with the disclosure requirements of Form N-3 is mandatory. Responses to the disclosure requirements are not confidential.

The current total annual hour burden for preparing registration statements on Form N-3 is 33,934 hours. An additional burden of 728 hours is expected to result from the Commission's recent proposed rules relating to frequent purchases and redemptions of fund shares and selective disclosure of portfolio holdings.<sup>68</sup> Thus, we estimate that the current total annual hour burden for the preparation and filing of Form N-3 is 34,662 hours (33,934 hours + 728 hours).

The Commission estimates that, on an annual basis, initial registration statements covering 3 portfolios are filed on Form N-3 and post-effective amendments covering 35 portfolios are filed on Form N-3. We estimate that the proposed amendments would increase the hour burden per portfolio per filing of an initial registration statement on Form N-3 by 10 hours and would increase the hour burden per portfolio per filing of a post-effective amendment to a registration statement on Form N-3 by 4 hours. Thus, the incremental hour burden resulting from the proposed amendments relating to portfolio manager disclosure would be 170 hours ((10 hours × 3 portfolios) + (4 hours × 35 portfolios)). If the proposed amendments to Form N-3 are adopted, the total annual hour burden for all funds for preparation and filing of initial registration statements and post-effective amendments on Form N-3 would be 34,832 hours (170 hours + 34,662 hours).

#### *Form N-CSR*

Form N-CSR, including the amendments, contains collection of information requirements. The respondents to this information collection would be closed-end funds subject to rule 30e-1 under the Investment Company Act registering with the Commission on Form N-2. Compliance with the disclosure requirements of Form N-CSR is mandatory. Responses to the disclosure requirements are not confidential.

<sup>68</sup> See Investment Company Act Release No. 26287 (Dec. 11, 2003) [68 FR 70402 (Dec. 17, 2003)] (disclosure of frequent purchases and redemptions of fund shares and selective disclosure of portfolio holdings).

The current total annual hour burden for preparing reports on Form N-CSR is 142,498 hours. A net increase of 121 hours is expected to result from the Commission's final rule relating to disclosure regarding nominating committee functions and communications between security holders and boards of directors.<sup>69</sup> Thus, the Commission estimates that the current total annual hour burden for the preparation and filing of Form N-CSR would be 142,619 hours.

We estimate that 733 closed-end funds registered on Form N-2 file reports on Form N-CSR.<sup>70</sup> We estimate that the hour burden associated with the requirements of this proposal would increase the burden of filing Form N-CSR for closed-end funds by 4 hours per annual report on Form N-CSR, and by 2 hours per semi-annual report on Form N-CSR. Thus, the incremental hour burden resulting from the proposed amendments relating to portfolio manager disclosure would be 4,398 hours ((4 hours × 733 closed-end funds) + (2 hours × 733 closed-end funds)). If the proposed amendments to Form N-CSR are adopted, the total annual hour burden for all funds for preparation and filing of reports on Form N-CSR would be 147,017 hours (4,398 hours + 142,619 hours).

#### *Request for Comments*

We request your comments on the accuracy of our estimates. Pursuant to 44 U.S.C. 3506(c)(2)(B), the Commission solicits comments to: (i) Evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (ii) evaluate the accuracy of the Commission's estimate of burden of the proposed collection of information; (iii) determine whether there are ways to enhance the quality, utility, and clarity of the information to be collected; and (iv) evaluate whether there are ways to minimize the burden of the collection of information on those who are to respond, including through the use of automated collection techniques or other forms of information technology.

Persons submitting comments on the collection of information requirements should direct the comments to the

<sup>69</sup> See Investment Company Act Release No. 26262 (Nov. 24, 2003) [68 FR 66992 (Nov. 28, 2003)] (disclosure regarding nominating committee functions and communications between security holders and boards of directors).

<sup>70</sup> The estimate of the number of closed-end funds registered on Form N-2 is based on the Commission staff's analysis of reports filed on Form N-SAR in 2003.

Office of Management and Budget, Attention: Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Room 10102, New Executive Office Building, Washington, DC 20503, and should send a copy to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 5th Street, NW., Washington, DC 20549-0609, with reference to File No. S7-12-04. Requests for materials submitted to OMB by the Commission with regard to this collection of information should be in writing, refer to File No. S7-12-04, and be submitted to the Securities and Exchange Commission, Office of Filing and Information Services, 450 Fifth Street, NW., Washington, DC 20549-0609. OMB is required to make a decision concerning the collection of information between 30 and 60 days after publication of this release. Consequently, a comment to OMB is best assured of having its full effect if OMB receives it within 30 days after publication of this Release.

#### **V. Cost/Benefit Analysis**

The Commission is sensitive to the costs and benefits imposed by its rules. Our proposals would require mutual funds to provide enhanced disclosure about their portfolio managers. Specifically, the proposals would:

- Require a fund to identify in its prospectus each member of a committee, team, or other group of persons that is jointly and primarily responsible for the day-to-day management of the fund's portfolio;
- Require a fund to provide information in its SAI regarding other accounts managed by any of its portfolio managers, including a description of conflicts of interest that may arise in connection with simultaneously managing the fund and the other accounts;
- Require a fund to disclose in its SAI the structure of, and the method used to determine, the compensation of each portfolio manager;
- Require a fund to disclose in its SAI each portfolio manager's ownership of securities in the fund and other accounts, including investment companies, managed by the portfolio manager, the fund's investment adviser, or any person controlling, controlled by, or under common control with an investment adviser or principal underwriter of the fund; and
- Require a closed-end fund to provide parallel disclosure regarding its portfolio managers in its reports on Form N-CSR.

These proposed amendments are intended to provide greater

transparency regarding portfolio managers, their incentives in managing a fund, and the potential conflicts of interest that may arise when they or the adviser that employs them also manages other investment vehicles.

#### A. Benefits

The enhanced disclosure regarding portfolio managers that would be required under our proposals would benefit investors in several ways. First, enhanced disclosure regarding portfolio managers who are members of management teams would help investors better evaluate the identity, background, and experience of fund management in cases where the fund is managed using a team approach. Second, requiring a fund to provide disclosure regarding other accounts for which its portfolio managers are primarily responsible for day-to-day portfolio management would enable investors to assess the conflicts of interest to which a portfolio manager may be subject as a result of managing the fund and other portfolios, such as hedge funds. Third, requiring a fund to provide disclosure regarding the structure of, and method used to determine, the compensation of its portfolio managers will help investors better understand a portfolio manager's incentives in running a fund, and would also shed light on possible conflicts of interest that may arise when a portfolio manager manages other accounts. Fourth, requiring a fund to disclose the ownership of securities of each of its portfolio managers in the fund and in other accounts, including investment companies, managed by the fund's investment adviser or the portfolio manager should help investors to assess the extent to which the portfolio manager's interests are aligned with theirs, as well as the level of confidence that a manager has in the investment strategy of the fund. In addition, we believe that requiring this disclosure would assist fund investors in assessing potential conflicts of interest between their interests, and the interests of other clients or investment vehicles in which the manager has an interest. Finally, requiring a fund to state in its prospectus that the SAI provides additional information about portfolio managers, and whether the SAI is available on or through the fund's Web site, would assist investors in accessing the additional information about portfolio managers that would be required in the SAI under our proposals.

We seek comment on the benefits of the proposed amendments (and any alternatives suggested by commenters)

as well as any data quantifying those benefits.

#### B. Costs

The proposals would impose new requirements on funds to provide enhanced disclosure regarding their portfolio managers. We estimate that complying with these proposed new disclosure requirements would entail a relatively small financial burden. The information that would be required regarding a fund's portfolio managers should be readily available to a fund's investment adviser. We note that our recently proposed code of ethics rules for investment advisers would require portfolio managers to report to the investment adviser information on their securities holdings and transactions on a quarterly basis, including information about shares of investment companies managed by the adviser and certain of its affiliates.<sup>71</sup> Therefore, we expect that the cost of compiling and reporting this information should be limited.

These costs may include both internal costs (for attorneys and other non-legal staff of a fund, such as computer programmers, to prepare and review the required disclosure) and external costs (for printing and typesetting of the disclosure). For purposes of the Paperwork Reduction Act, we have estimated that the proposed new disclosure requirements would add 38,058 hours to the burden of completing Forms N-1A, N-2, N-3 and N-CSR.<sup>72</sup> We estimate that this additional burden would equal total internal costs of \$2,986,792 annually, or approximately \$786 per fund.<sup>73</sup>

<sup>71</sup> See Investment Company Act Release No. 26337 (Jan. 20, 2004) [66 FR 4040 (Jan. 27, 2004)] (proposing rule 204A-1(b)(1) under the Investment Advisers Act of 1940).

<sup>72</sup> This represents 30,998 additional hours for Form N-1A, 2,492 additional hours for Form N-2, 170 additional hours for Form N-3, and 4,398 additional hours for Form N-CSR.

<sup>73</sup> These internal cost estimates are based on a Commission estimate that approximately 3,800 funds would be subject to the proposed amendments and an estimated hourly wage rate of \$78.48. This estimated wage rate is a blended rate, based on published hourly wage rates for compliance attorneys (\$74.22) and programmers (\$42.05) in New York City, and the estimate that professional and non-professional staff will divide time equally on compliance with the disclosure requirements, yielding a weighted wage rate of \$58.135 ( $(\$74.22 \times .50) + (\$42.05 \times .50) = \$58.135$ ). See Securities Industry Association, *Report on Management & Professional Earnings in the Securities Industry 2001* (Oct. 2001) (for most current rate for compliance attorneys in New York City); Securities Industry Association, *Report on Management & Professional Earnings in the Securities Industry 2002* (Sep. 2002) (for most current rate for programmers in New York City). This weighted wage rate was then adjusted upward by 35% for overhead, reflecting the costs of supervision, space, and administrative support, to

We expect that the external costs of providing the additional disclosure relating to a fund's portfolio managers, including other accounts they manage, compensation structure, and ownership of securities in investment companies or accounts they manage, would be minimal, because this disclosure would be required in a fund's SAI (and in the case of a closed-end fund, on Form N-CSR also). The SAI is typically not typeset, and is only required to be provided to shareholders upon request. Similarly, because the disclosure in Form N-CSR proposed for closed-end funds would not be required to be delivered to shareholders, we estimate that the external costs of this disclosure on Form N-CSR will be minimal as well.

We request comment on the nature and magnitude of our estimates of the costs of the additional disclosure that would be required if our proposals were adopted.

#### C. Request for Comments

We request comments on all aspects of this cost-benefit analysis, including identification of any additional costs or benefits of, or suggested alternatives to, the proposed amendments. Commenters are requested to provide empirical data and other factual support for their views to the extent possible.

### VI. Consideration of Burden on Competition; Promotion of Efficiency, Competition, and Capital Formation

Section 23(a)(2) of the Exchange Act requires us, when adopting rules under the Exchange Act, to consider the impact that any new rule would have on competition.<sup>74</sup> Section 23(a)(2) also prohibits us from adopting any rule that would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. In addition, Section 2(c) of the Investment Company Act, Section 2(b) of the Securities Act, and Section 3(f) of the Exchange Act require the Commission, when engaging in rulemaking that requires it to consider or determine whether an action is necessary or appropriate in the public interest, to consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation.<sup>75</sup>

The proposed amendments are intended to provide greater transparency for fund shareholders regarding the identity, incentives, and

obtain the total per hour internal cost of \$78.48 ( $\$58.135 \times 1.35 = \$78.48$ ).

<sup>74</sup> 15 U.S.C. 78w(a)(2).

<sup>75</sup> 15 U.S.C. 77(b), 78c(f), and 80a-2(c).

potential conflicts of interest of a fund's portfolio managers. These changes may improve efficiency. The enhanced disclosure requirements may enable shareholders to make a more informed assessment as to whether the interests of fund management are aligned with shareholders, which could promote more efficient allocation of investments by investors. These proposals may also improve competition, as enhanced transparency regarding a fund's portfolio managers may encourage investors to consider more carefully the background, incentives, and potential conflicts of interest of the portfolio managers of the funds in which they are invested, or in which they are considering investing. Finally, the proposed amendments will have no effect on capital formation.

Although, as noted above, we believe that the proposed amendments would benefit investors, the magnitude of the effect of the proposed amendments on efficiency and competition, and the extent to which they would be offset by the costs of the proposals, are difficult to quantify. We note that most funds are currently required to provide disclosure in their prospectuses regarding the identity and background of their portfolio managers.

We request comment on whether the proposed amendments, if adopted, would promote efficiency, competition, and capital formation. We also request comment on any anti-competitive effects of the proposed amendments. Commenters are requested to provide empirical data and other factual support for their views if possible.

## VII. Initial Regulatory Flexibility Analysis

This Initial Regulatory Flexibility Analysis ("Analysis") has been prepared in accordance with 5 U.S.C. 603. It relates to the Commission's proposed amendments to Forms N-1A, N-2, and N-3 under the Securities Act and the Investment Company Act, and to Form N-CSR under the Investment Company Act and the Exchange Act, that would require funds to provide improved disclosure about their portfolio managers.

### A. Reasons for, and Objectives of, Proposed Amendments

Sections I and II of this Release describe the reasons for and objectives of the proposed form amendments. As we discuss in detail above, these proposals are designed to increase the transparency of the information that a fund provides regarding its portfolio managers, in order to better help investors evaluate their background,

incentives in managing the fund, and potential conflicts of interest.

### B. Legal Basis

The Commission is proposing amendments to Forms N-1A, N-2, and N-3 pursuant to authority set forth in Sections 5, 6, 7, 10, and 19(a) of the Securities Act [15 U.S.C. 77e, 77f, 77g, 77j, and 77s(a)], and Sections 8, 24(a), 30, and 38 of the Investment Company Act [15 U.S.C. 80a-8, 80a-24(a), 80a-29, and 80a-37]. The Commission is adopting amendments to Form N-CSR pursuant to authority set forth in sections 10(b), 13, 15(d), 23(a), and 36 of the Exchange Act [15 U.S.C. 78j(b), 78m, 78o(d), 78w(a), and 78mm] and sections 8, 24(a), 30, and 38 of the Investment Company Act [15 U.S.C. 80a-8, 80a-24(a), 80a-29, and 80a-37].

### C. Small Entities Subject to the Rule

For purposes of the Regulatory Flexibility Act, an investment company is a small entity if it, together with other investment companies in the same group of related investment companies, has net assets of \$50 million or less as of the end of its most recent fiscal year.<sup>76</sup> Approximately 145 mutual funds registered on Form N-1A and approximately 70 closed-end funds registered on Form N-2 meet this definition.<sup>77</sup> We estimate that few, if any, registered separate accounts registered on Form N-3 are small entities.<sup>78</sup>

### D. Reporting, Recordkeeping, and Other Compliance Requirements

The proposed amendments would require a fund to identify and provide basic information in its prospectus regarding each member of a team responsible for managing the fund's portfolio. In addition, a fund would be required to provide additional disclosure in its SAI about its portfolio managers, including other accounts they manage, compensation structure, and ownership of securities in accounts they manage. A closed-end fund would also be required to provide this disclosure in its reports on Form N-CSR.

<sup>76</sup> 17 CFR 270.0-10.

<sup>77</sup> This estimate is based on analysis by the Division of Investment Management staff of information from databases compiled by third-party information providers, including Morningstar, Inc., and Lipper.

<sup>78</sup> This estimate is based on figures compiled by Division of Investment Management staff regarding separate accounts registered on Form N-3. In determining whether an insurance company separate account is a small entity for purposes of the Regulatory Flexibility Act, the assets of insurance company separate accounts are aggregated with the assets of their sponsoring insurance companies. Rule 0-10(b) under the Investment Company Act [17 CFR 270.0-10(b)].

The Commission estimates some one-time formatting and ongoing costs and burdens that would be imposed on all funds, including funds that are small entities. We note, however, that in many cases mutual funds and closed-end funds currently provide disclosure in their prospectuses about their portfolio managers, including their names, titles, length of service, and business experience. For purposes of the Paperwork Reduction Act, we have estimated that the proposed new disclosure requirements would increase the hour burden of filings on Forms N-1A, N-2, N-3, and N-CSR by 38,058 hours annually. We estimate that this additional burden would increase total internal costs per fund, including funds that are small entities, by approximately \$786 per fund annually.<sup>79</sup>

We expect that the external costs of providing the additional disclosure relating to a fund's portfolio managers, including other accounts they manage, compensation structure, and ownership of securities in accounts they manage, would be minimal, because this disclosure would be required in a fund's SAI (and in the case of a closed-end fund, on Form N-CSR also). The SAI is typically not typeset, and is only required to be provided to shareholders upon request. Similarly, because the disclosure in Form N-CSR proposed for closed-end funds would not be required to be delivered to shareholders, we estimate that the external costs of this disclosure on Form N-CSR will be minimal as well.

The Commission solicits comment on the effect the proposed amendments would have on small entities.

### E. Duplicative, Overlapping or Conflicting Federal Rules

There are no rules that duplicate, overlap, or conflict with the proposed amendments.

### F. Significant Alternatives

The Regulatory Flexibility Act directs us to consider significant alternatives that would accomplish our stated objective, while minimizing any significant adverse impact on small issuers. In connection with the proposed amendments, the Commission considered the following alternatives: (i) The establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (ii) the clarification, consolidation, or simplification of compliance and reporting requirements under the

<sup>79</sup> These figures are based on an estimated hourly wage rate of \$78.48. See *supra* note 73.

proposed amendments for small entities; (iii) the use of performance rather than design standards; and (iv) an exemption from coverage of the proposed amendments, or any part thereof, for small entities.

The Commission believes at the present time that special compliance or reporting requirements for small entities, or an exemption from coverage for small entities, would not be appropriate or consistent with investor protection. The proposed amendments would provide investors with greater transparency of information regarding fund portfolio managers, including their compensation structure, other accounts that they manage, and their ownership of securities in the fund and in other accounts managed by the fund's investment adviser or the portfolio manager. This increased transparency would allow investors to better assess portfolio managers' incentives, alignment with shareholders' interests, and potential conflicts of interest. Different disclosure requirements for funds that are small entities may create the risk that investors in these funds would be less able to evaluate the portfolio management of these funds, and less able to make informed choices among funds. We believe it is important for the disclosure that would be required by the proposed amendments to be provided to investors in all funds, not just funds that are not considered small entities.

We have endeavored through the proposed amendments to minimize the regulatory burden on all funds, including small entities, while meeting our regulatory objectives. Small entities should benefit from the Commission's reasoned approach to the proposed amendments to the same degree as other investment companies. Further clarification, consolidation, or simplification of the proposals for funds that are small entities would be inconsistent with the Commission's concern for investor protection. Finally, we do not consider using performance rather than design standards to be consistent with our statutory mandate of investor protection in the present context. Based on our past experience, we believe that the proposed disclosure would be more useful to investors if there were enumerated informational requirements.

#### G. Solicitation of Comments

The Commission encourages the submission of written comments with respect to any aspect of this Analysis. Comment is specifically requested on the number of small entities that would be affected by the proposed

amendments and the likely impact of the proposals on small entities. Commenters are asked to describe the nature of any impact and provide empirical data supporting the extent of the impact. These comments will be considered in the preparation of the Final Regulatory Flexibility Analysis, if the proposed amendments are adopted, and will be placed in the same public file as comments on the proposed amendments themselves. Comments should be submitted in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Comments also may be submitted electronically at the following E-mail address: [rule-comments@sec.gov](mailto:rule-comments@sec.gov). All comment letters should refer to File No. S7-12-04; this file number should be included on the subject line if E-mail is used. Comment letters will be available for public inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, NW., Washington, DC 20549-0102. Electronically submitted comment letters also will be posted on the Commission's Internet Web site (<http://www.sec.gov>).<sup>80</sup>

#### VIII. Consideration of Impact on the Economy

For purposes of the Small Business Enforcement Fairness Act of 1996,<sup>81</sup> a rule is "major" if it results or is likely to result in:

- An annual effect on the economy of \$100 million or more;
  - A major increase in costs or prices for consumers or individual industries; or
  - Significant adverse effects on competition, investment, or innovation.
- The Commission requests comment on the potential impact of the proposed amendments on the U.S. economy on an annual basis. Commenters are requested to provide empirical data to support their views.

#### IX. Statutory Authority

The Commission is proposing amendments to Forms N-1A, N-2, and N-3 pursuant to authority set forth in sections 5, 6, 7, 10, and 19(a) of the Securities Act [15 U.S.C. 77e, 77f, 77g, 77j, and 77s(a)] and sections 8, 24(a), 30, and 38 of the Investment Company Act [15 U.S.C. 80a-8, 80a-24(a), 80a-29, and 80a-37]. The Commission is proposing amendments to Form N-CSR

<sup>80</sup> We do not edit personal identifying information, such as names or electronic mail addresses, from hard copy or electronic submissions. You should submit only information that you wish to make available publicly.

<sup>81</sup> Pub. L. No. 104-21, Title II, 110 Stat. 857 (1996).

pursuant to authority set forth in sections 10(b), 13, 15(d), 23(a), and 36 of the Exchange Act [15 U.S.C. 78j(b), 78m, 78o(d), 78w(a), and 78mm] and sections 8, 24(a), 30, and 38 of the Investment Company Act [15 U.S.C. 80a-8, 80a-24(a), 80a-29, and 80a-37].

#### List of Subjects

##### 17 CFR Parts 239 and 249

Reporting and recordkeeping requirements, Securities.

##### 17 CFR Parts 270 and 274

Investment companies, Reporting and recordkeeping requirements, Securities.

#### Text of Proposed Rule and Form Amendments

For the reasons set out in the preamble, the Commission proposes to amend Title 17, Chapter II, of the Code of Federal Regulations as follows.

#### PART 239—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

1. The authority citation for Part 239 continues to read in part as follows:

**Authority:** 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77z-2, 77sss, 78c, 78l, 78m, 78n, 78o(d), 78u-5, 78w(a), 78ll(d), 79e, 79f, 79g, 79j, 79l, 79m, 79n, 79q, 79t, 80a-8, 80a-24, 80a-26, 80a-29, 80a-30, and 80a-37, unless otherwise noted.

#### PART 249—FORMS, SECURITIES EXCHANGE ACT OF 1934

2. The authority citation for part 249 continues to read, in part, as follows:

**Authority:** 15 U.S.C. 78a *et seq.* and 7201 *et seq.*; and 18 U.S.C. 1350, unless otherwise noted.

#### PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

3. The authority citation for part 270 continues to read, in part, as follows:

**Authority:** 15 U.S.C. 80a-1 *et seq.*, 80a-34(d), 80a-37, and 80a-39, unless otherwise noted.

#### § 270.30a-2 [Amended]

4. Section 270.30a-2 is amended by:
- a. Revising the reference "Item 11(a)(2)" in paragraph (a) to read "Item 12(a)(2)"; and
  - b. Revising the reference "Item 11(b)" in paragraph (b) to read "Item 12(b)".

#### PART 274—FORMS PRESCRIBED UNDER THE INVESTMENT COMPANY ACT OF 1940

5. The authority citation for Part 274 continues to read in part as follows:

**Authority:** 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78c(b), 78l, 78m, 78n, 78o(d), 80a-8, 80a-24, 80a-26, and 80a-29, unless otherwise noted.

**Note:** The text of Forms N-1A, N-2, N-3, and N-CSR do not, and these amendments will not, appear in the Code of Federal Regulations.

6. Form N-1A (referenced in §§ 239.15A and 274.11A) is amended by:

- a. Revising Item 1(b)(1) and Instruction 1 to Item 1(b)(1);
- b. Revising Item 5(a)(2) and Instructions 1 and 2 to Item 5(a)(2) and deleting Instructions 3 and 4 to Item 5(a)(2);
- c. Redesignating Items 15 through 29 as Items 16 through 30;
- d. Adding new Item 15;
- e. In paragraph B.2(b) of the General Instructions, revising the phrase “(except Items 1, 2, 3, and 8), B, and C (except Items 22(e) and (i)–(k))” to read “(except Items 1, 2, 3, and 8), B, and C (except Items 23(e) and (i)–(k))”;
- f. In Item 2(c)(2)(iii), revising the phrase “Instruction 5 to Item 21(b)(7)” to read “Instruction 5 to Item 22(b)(7)”;
- g. In Instruction 2(a) to Item 2(c)(2), revising the references “Item 20(a)”, “Item 20(b)(1)”, and “Items 20(b)(2) and (3)” to read “Item 21(a)”, “Item 21(b)(1)”, and “Items 21(b)(2) and (3)”, respectively;
- h. In Instruction 2(b) to Item 2(c)(2), revising the phrase “Instruction 6 to Item 21(b)(7)” to read “Instruction 6 to Item 22(b)(7)”;
- i. In Instruction 2(d) to Item 2(c)(2), revising the references “Item 20(b)(2)” and “Item 20” to read “Item 21(b)(2)” and “Item 21”, respectively;
- j. In Instruction 4 to Item 2(c)(2), revising the phrase “Instruction 11 to Item 21(b)(7)” to read “Instruction 11 to Item 22(b)(7)”;
- k. In Instruction to paragraph (a) of newly redesignated Item 18, revising the reference “Item 17(a)” to read “Item 18(a)”;
- l. In Instruction 4 to paragraph (c) of newly redesignated Item 18 and paragraph (k) of newly redesignated Item 23, revising the reference “Item 21” to read “Item 22”;
- m. In Instruction 1 to paragraph (c) of newly redesignated Item 20, revising the reference “Item 29” to read “Item 30”;
- n. In paragraph (b) of newly redesignated Item 27, revising the reference “Item 19” to read “Item 20”;
- o. In Instruction 2 to paragraph (c) of newly redesignated Item 27, revising the reference “Item 19(c)” to read “Item 20(c)”;
- p. In paragraph (b)(7)(ii)(B) of newly redesignated Item 22, revising the reference “Item 20(b)(1)” to read “Item 21(b)(1)”;
- q. In Instruction to paragraph (c)(1)(ii) of newly redesignated Item 22, revising

the references “Item 21(b)(1)” and “Item 21(c)(1)” to read “Item 22(b)(1)” and “Item 22(c)(1)”, respectively; and

r. In Instruction 2(a)(ii) to paragraph (d)(1) of newly redesignated Item 22, revising the reference “Item 21(d)(1)” to read “Item 22(d)(1)”.

The additions and revisions are to read as follows:

#### Form N-1A

\* \* \* \* \*

#### Item 1. Front and Back Cover Pages

\* \* \* \* \*

(b) *Back Cover Page.* Include the following information, in plain English under rule 421(d) under the Securities Act, on the outside back cover page of the prospectus:

(1) A statement that the SAI includes additional information about the Fund, and a statement to the following effect:

Additional information about the Fund’s investments is available in the Fund’s annual and semi-annual reports to shareholders. In the Fund’s annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund’s performance during its last fiscal year.

Explain that the SAI and the Fund’s annual and semi-annual reports are available, without charge, upon request, and explain how shareholders in the Fund may make inquiries to the Fund. Provide a toll-free (or collect) telephone number for investors to call: To request the SAI; to request the Fund’s annual report; to request the Fund’s semi-annual report; to request other information about the Fund; and to make shareholder inquiries. Also, state whether the Fund makes available its SAI and annual and semi-annual reports, free of charge, on or through the Fund’s Web site at a specified Internet address. If the Fund does not make its SAI and shareholder reports available in this manner, disclose the reasons why it does not do so (including, where applicable, that the Fund does not have an Internet Web site).

#### Instructions:

1. A Fund may indicate, if applicable, that the SAI, annual and semi-annual reports, and other information are available by E-mail request.

\* \* \* \* \*

#### Item 5. Management, Organization, and Capital Structure

(a) \* \* \*

(2) *Portfolio Manager.* State the name, title, and length of service of the person or persons employed by or associated with the Fund or an investment adviser

of the Fund, if any, who are primarily responsible for the day-to-day management of the Fund’s portfolio (“Portfolio Manager”). Also state each Portfolio Manager’s business experience during the past 5 years. Include a statement, adjacent to the foregoing disclosure, that the SAI provides additional information about the Portfolio Manager’s(s’) compensation, other accounts managed by the Portfolio Manager(s), and the Portfolio Manager’s(s’) ownership of securities in the Fund and other accounts managed by the Fund’s investment adviser(s) or the Portfolio Manager(s).

#### Instructions:

1. This requirement does not apply to a Money Market Fund.

2. If a committee, team, or other group of persons associated with an investment adviser of the Fund is jointly and primarily responsible for the day-to-day management of the Fund’s portfolio, information in response to this Item is required for each member of such committee, team, or other group. For each such member, provide a brief description of the person’s role on the committee, team, or other group (e.g., lead member).

\* \* \* \* \*

#### Item 15. Portfolio Managers

(a) *Other Accounts Managed.* If a Portfolio Manager identified in response to Item 5(a)(2) is primarily responsible for the day-to-day management of the portfolio of any other account, provide the following information:

(1) The Portfolio Manager’s name;

(2) The number of other accounts managed within each of the following categories and the total assets in the accounts managed within each category:

(A) Registered investment companies;

(B) Other investment companies;

(C) Other pooled investment vehicles; and

(D) Other accounts.

(3) For each of the categories in paragraph (a)(2) of this Item, the number of accounts and the total assets in the accounts with respect to which the advisory fee is based on the performance of the account; and

(4) A description of any conflicts of interest that may arise in connection with the Portfolio Manager’s management of the Fund’s investments, on the one hand, and the investments of the other accounts included in response to paragraph (a)(2) of this Item, on the other. This description would include, for example, conflicts between the investment strategy of the Fund and the investment strategy of other accounts managed by the Portfolio Manager and conflicts in allocation of investment

opportunities between the Fund and other accounts managed by the Portfolio Manager. Include a description of the policies and procedures used by the Fund or the Fund's adviser to address any such conflicts.

*Instructions:*

1. Information should be provided as of the end of the Fund's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Fund's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. If a committee, team, or other group of persons that includes the Portfolio Manager is jointly and primarily responsible for the day-to-day management of the portfolio of an account, the account should be included in responding to paragraph (a) of this Item.

3. A Fund may satisfy the requirement to provide a description of the policies and procedures used by it or the adviser to address conflicts of interest by including a copy of the policies and procedures themselves.

(b) *Compensation.* Describe the structure of, and the method used to determine, the compensation of each

Portfolio Manager identified in response to Item 5(a)(2). For each type of compensation (e.g., salary, bonus, deferred compensation, retirement plans and arrangements), include a description of the criteria on which that type of compensation is based, for example, whether compensation is fixed, whether compensation is based on Fund pre- or after-tax performance over a certain time period, and whether compensation is based on the value of assets held in the Fund's portfolio.

*Instructions:*

1. Information should be provided as of the end of the Fund's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Fund's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. Compensation includes, without limitation, salary, bonus, deferred compensation, and pension and retirement plans and arrangements, whether the compensation is cash or non-cash. The value of compensation is not required to be disclosed under this Item.

3. Include a description of the structure of, and the method used to

determine, any compensation received by the Portfolio Manager from the Fund, the Fund's investment adviser, or any other source with respect to management of the Fund and any other accounts included in the response to paragraph (a)(2) of this Item. This description should clearly disclose any differences between the method used to determine the Portfolio Manager's compensation with respect to the Fund and other accounts, e.g., if the Portfolio Manager receives part of an advisory fee that is based on performance with respect to some accounts but not the Fund, this should be disclosed.

(c) *Ownership of Securities.* For each Portfolio Manager identified in response to Item 5(a)(2), furnish the information required by the following table as to each class of securities owned beneficially or of record by the Portfolio Manager or his immediate family members in:

- (i) The Fund;
- (ii) Accounts included in the response to paragraph (a)(2) of this Item; and
- (iii) Any other account, including an investment company, managed by an investment adviser of the Fund, or by any person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Fund:

(1)	(2)	(3)	(4)
Name of Portfolio Manager	Investment Company or Account	Title of Class	Dollar Range of Securities in the Investment Company or Account

*Instructions:*

(1) Information should be provided as of the end of the Fund's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Fund's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Specify the valuation date by footnote or otherwise.

(2) An individual is a "beneficial owner" of a security if he is a "beneficial owner" under either rule 13d-3 or rule 16a-1(a)(2) under the Exchange Act (17 CFR 240.13.d-3 or 240.16a-1(a)(2)).

(3) Provide the information required by the table on an aggregate basis for each Portfolio Manager and his immediate family members.

(4) For purposes of this Item, the term "immediate family member" means a person's spouse; child residing in the person's household (including step and

adoptive children); and any dependent of the person, as defined in section 152 of the Internal Revenue Code (26 U.S.C. 152).

(5) In disclosing the dollar range of securities owned by a Portfolio Manager and his immediate family members in column (4), use the following ranges: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000, or over \$1,000,000.

\* \* \* \* \*

7. Form N-2 (referenced in §§ 239.14 and 274.11a-1) is amended by:

- a. Revising Item 1.1.d;
- b. Revising Item 9.1.c and the Instructions to Item 9.1.c;
- c. Redesignating Items 21 through 33 as Items 22 through 34;
- d. Adding new Item 21;
- e. In paragraph E.3 of the General Instructions, revising the reference "Item 33.4" to read "Item 34.4";
- f. In paragraph F of the General Instructions, revising the reference

"Items 4.1 or 23" to read "Items 4.1 or 24";

g. In paragraph F of the General Instructions, revising the reference "Items 4.2, 8.6.c or 23" to read "Items 4.2, 8.6.c or 24";

h. In paragraph F of the General Instructions, revising the reference "Items 4.1, 4.2, 8.6.c or 23" to read "Items 4.1, 4.2, 8.6.c or 24";

i. In paragraph F of the General Instructions, revising the reference "Item 24.1" to read "Item 25.1";

j. In paragraph G.3 of the General Instructions, revising the reference "Items 24.2.h, 24.2.l, 24.2.n, and 24.2.o" to read "Items 25.2.h, 25.2.l, 25.2.n, and 25.2.o";

k. In the first paragraph of General Instructions for Part B: Statement of Additional Information, revising the reference "Item 33.6" to read "Item 34.6";

l. In Instruction 6 to Item 1.1.g, revising the reference "Item 26" to read "Item 27";



m. In Instruction 3 to Item 8.6.c, revising the reference "Item 23" to read "Item 24";

n. In Instruction 2 to Item 10.6, revising the reference "Item 24.2.n" to read "Item 25.2n";

o. In newly redesignated Item 24.1.b, revising the reference "Item 23" to read "Item 24";

p. In newly redesignated Item 25.2.o, revising the reference "Items 8.6 or 23" to read "Items 8.6 or 24"; and

q. In Instruction 2 to newly redesignated Item 25, revising the reference "Items 8.6 or 23" to read "Items 8.6 or 24".

The additions and revisions are to read as follows:

#### Form N-2

\* \* \* \* \*

#### Item 1. Outside Front Cover

1. \* \* \*

d. A statement that (A) the prospectus sets forth concisely the information about the Registrant that a prospective investor ought to know before investing; (B) the prospectus should be retained for future reference; and (C) additional information about the Registrant has been filed with the Commission and is available upon written or oral request and without charge (This statement should explain how to obtain the SAI, whether any of it has been incorporated by reference into the prospectus, and where the table of contents of the SAI appears in the prospectus. This statement should also explain how to obtain the Registrant's annual and semi-annual reports to shareholders. Provide a toll-free (or collect) telephone number for investors to call: To request the SAI; to request the Registrant's annual report; to request the Registrant's semi-annual report; to request other information about the Registrant; and to make shareholder inquiries. Also state whether the Registrant makes available its SAI and annual and semi-annual reports, free of charge, on or through the Registrant's Web site at a specified Internet address. If the Registrant does not make its SAI and shareholder reports available in this manner, disclose the reasons why it does not do so (including, where applicable, that the Registrant does not have an Internet Web site.) Also include the information that the Commission maintains an Internet Web site (<http://www.sec.gov>) that contains the SAI, material information by reference, and other information regarding registrants.);

\* \* \* \* \*

#### Item 9. Management

1. \* \* \*

c. *Portfolio Management*: The name, title, and length of service of the person or persons employed by or associated with the Registrant or an investment adviser of the Registrant, if any, who are primarily responsible for the day-to-day management of the Registrant's portfolio ("Portfolio Manager"). Also state each Portfolio Manager's business experience during the past 5 years. Include a statement, adjacent to the foregoing disclosure, that the SAI provides additional information about the Portfolio Manager's(s') compensation, other accounts managed by the Portfolio Manager(s), and the Portfolio Manager's(s') ownership of securities in the Registrant and other accounts managed by the Registrant's investment adviser(s) or the Portfolio Manager(s).

#### Instruction:

If a committee, team, or other group of persons associated with an investment adviser of the Registrant is jointly and primarily responsible for the day-to-day management of the Registrant's portfolio, information in response to this Item is required for each member of such committee, team, or other group. For each such member, provide a brief description of the person's role on the committee, team, or other group (e.g., lead member).

\* \* \* \* \*

#### Item 21. Portfolio Managers

1. *Other Accounts Managed*: If a Portfolio Manager identified in response to Item 9.1.c is primarily responsible for the day-to-day management of the portfolio of any other account, provide the following information:

a. The Portfolio Manager's name;

b. The number of other accounts managed within each of the following categories and the total assets in the accounts managed within each category:

(1) Registered investment companies;

(2) Other investment companies;

(3) Other pooled investment vehicles;

and

(4) Other accounts.

c. For each of the categories in Item 21.1.b., the number of accounts and the total assets in the accounts with respect to which the advisory fee is based on the performance of the account; and

d. A description of any conflicts of interest that may arise in connection with the Portfolio Manager's management of the Registrant's investments, on the one hand, and the investments of the other accounts included in response to Item 21.1b., on the other. This description would include, for example, conflicts between the investment strategy of the Registrant and the investment strategy of other accounts managed by the Portfolio

Manager and conflicts in allocation of investment opportunities between the Registrant and other accounts managed by the Portfolio Manager. Include a description of the policies and procedures used by the Registrant or the Registrant's adviser to address any such conflicts.

#### Instructions:

1. Information should be provided as of the end of the Registrant's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Registrant's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. If a committee, team, or other group of persons that includes the Portfolio Manager is jointly and primarily responsible for the day-to-day management of the portfolio of an account, the account should be included in responding to Item 21.1.

3. A Registrant may satisfy the requirement to provide a description of the policies and procedures used by it or the adviser to address conflicts of interest by including a copy of the policies and procedures themselves.

2. *Compensation*: Describe the structure of, and the method used to determine, the compensation of each Portfolio Manager identified in response to Item 9.1.c. For each type of compensation (e.g., salary, bonus, deferred compensation, retirement plans and arrangements), include a description of the criteria on which that type of compensation is based, for example, whether compensation is fixed, whether compensation is based on the Registrant's pre- or after-tax performance over a certain time period, and whether compensation is based on the value of assets held in the Registrant's portfolio.

#### Instructions:

1. Information should be provided as of the end of the Registrant's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Registrant's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. Compensation includes, without limitation, salary, bonus, deferred compensation, and pension and retirement plans and arrangements, whether the compensation is cash or

non-cash. The value of compensation is not required to be disclosed under this Item.

3. Include a description of the structure of, and the method used to determine, any compensation received by the Portfolio Manager from the Registrant, the Registrant's investment adviser, or any other source with respect to management of the Registrant and any other accounts included in the response to Item 21.1.b. This description should clearly disclose any differences between the method used to

determine the Portfolio Manager's compensation with respect to the Registrant and other accounts, e.g., if the Portfolio Manager receives part of an advisory fee that is based on performance with respect to some accounts but not the Registrant, this should be disclosed.

3. *Ownership of Securities:* For each Portfolio Manager identified in response to Item 9.1.c, furnish the information required by the following table as to each class of securities owned beneficially or of record by the Portfolio

Manager or his immediate family members in:

- a. The Registrant;
- b. Accounts included in the response to Item 21.1.b.;
- c. Any other account, including an investment company, managed by an investment adviser of the Registrant, or by any person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Registrant;

(1)	(2)	(3)	(4)
Name of Portfolio Manager	Investment Company or Account	Title of Class	Dollar Range of Securities in the Investment Company or Account

*Instructions:*

1. Information should be provided as of the end of the Registrant's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Registrant's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Specify the valuation date by footnote or otherwise.

2. An individual is a "beneficial owner" of a security if he is a "beneficial owner" under either rule 13d-3 or rule 16a-1(a)(2) under the Exchange Act (17 CFR 240.13.d-3 or 240.16a-1(a)(2)).

3. Provide the information required by the table on an aggregate basis for each Portfolio Manager and his immediate family members.

4. For purposes of this Item, the term "immediate family member" means a person's spouse; child residing in the person's household (including step and adoptive children); and any dependent of the person, as defined in section 152 of the Internal Revenue Code (26 U.S.C. 152).

5. In disclosing the dollar range of securities owned by a Portfolio Manager and his immediate family members in column (4), use the following ranges: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000, or over \$1,000,000.

\* \* \* \* \*

8. Form N-3 (referenced in §§ 239.17a and 274.11b) is amended by:

- a. Revising Item 1(a)(vi);
- b. Adding new Item 6(e);
- c. Redesignating Items 22 through 37 as Items 23 through 38;
- d. Adding new Item 22;

e. In paragraph G of the General Instructions, revising the reference "Items 4(a) or 27" to read "Items 4(a) or 28";

f. In paragraph G(2) of the General Instructions, revising the reference "Item 28(a)" to read "Items 29(a)";

g. In paragraph H(3) of the General Instructions, revising the reference "Item 28(b)(5), (12), (13), and (14)" to read "Items 29(b)(5), (12), (13), and (14)";

h. In Instruction 3(d) of Item 4(b), revising the reference "Item 27" to read "Item 28";

i. In Instruction 2 of Item 9, revising the reference "Item 26" to read "Item 27";

j. In newly redesignated Item 29(b)(14), revising the reference "Item 27" to read "Item 28"; and

k. In Instruction 2 of newly redesignated Item 29, revising the reference "Item 27" to read "Item 28".

The additions and revisions are to read as follows:

**Form N-3**

\* \* \* \* \*

**Item 1. Cover Page**

(a) \* \* \*

(vi) a statement or statements that (A) the prospectus sets forth information about the Registrant that a prospective investor ought to know before investing; (B) the prospectus should be retained for future reference; and (C) additional information about the Registrant has been filed with the Commission and is available upon written or oral request and without charge (This statement should explain how to obtain the Statement of Additional Information ("SAI"), whether any of it has been incorporated by reference into the prospectus, and where the table of contents of the SAI appears in the

prospectus. This statement should also explain how to obtain the Registrant's annual and semi-annual reports to shareholders. Provide a toll-free (or collect) telephone number for investors to call: to request the SAI; to request the Registrant's annual report; to request the Registrant's semi-annual report; to request other information about the Registrant; and to make shareholder inquiries. Also state whether the Registrant makes available its SAI and annual and semi-annual reports, free of charge, on or through the Registrant's Web site at a specified Internet address. If the Registrant does not make its SAI and shareholder reports available in this manner, disclose the reasons why it does not do so (including, where applicable, that the Registrant does not have an Internet Web site.) Also include the information that the Commission maintains an Internet Web site (<http://www.sec.gov>) that contains the SAI, material incorporated by reference, and other information regarding registrants.);

**Item 6. Management**

\* \* \* \* \*

(e) the name, title, and length of service of the person or persons employed by or associated with the Registrant or an investment adviser of the Registrant, if any, who are primarily responsible for the day-to-day management of the Registrant's portfolio ("Portfolio Manager"). Also state each Portfolio Manager's business experience during the past 5 years. Include a statement, adjacent to the foregoing disclosure, that the SAI provides additional information about the Portfolio Manager's(s') compensation, other accounts managed by the Portfolio Manager(s), and the Portfolio Manager's(s') ownership of securities in the Registrant and other accounts

managed or sponsored by the Insurance Company, the Registrant's investment adviser(s), or the Portfolio Manager(s).

*Instructions:*

1. This requirement does not apply to a Registrant that holds itself out as a money market fund and meets the maturity, quality, and diversification requirements of rule 2a-7 [17 CFR 270.2a-7].

2. If a committee, team, or other group of persons associated with an investment adviser of the Registrant is jointly and primarily responsible for the day-to-day management of the Registrant's portfolio, information in response to this Item is required for each member of such committee, team, or other group. For each such member, provide a brief description of the person's role on the committee, team, or other group (e.g., lead member).

\* \* \* \* \*

**Item 22. Portfolio Managers**

(a) If a Portfolio Manager identified in response to Item 6(e) is primarily responsible for the day-to-day management of the portfolio of any other account, provide the following information:

(i) The Portfolio Manager's name;  
 (ii) The number of other accounts managed within each of the following categories and the total assets in the accounts managed within each category:

- (A) Registered investment companies;
- (B) Other investment companies;
- (C) Other pooled investment vehicles; and
- (D) Other accounts.

(iii) For each of the categories in paragraph (a)(ii) of this Item, the number of accounts and the total assets in the accounts with respect to which the advisory fee is based on the performance of the account; and

(iv) A description of any conflicts of interest that may arise in connection with the Portfolio Manager's management of the Registrant's investments, on the one hand, and the investments of the other accounts included in response to paragraph (a)(ii) of this Item, on the other. This description would include, for example, conflicts between the investment

strategy of the Registrant and the investment strategy of other accounts managed by the Portfolio Manager and conflicts in allocation of investment opportunities between the Registrant and other accounts managed by the Portfolio Manager. Include a description of the policies and procedures used by the Registrant or the Registrant's adviser to address any such conflicts.

*Instructions:*

1. Information should be provided as of the end of the Registrant's most recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Registrant's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. If a committee, team, or other group of persons that includes the Portfolio Manager is jointly and primarily responsible for the day-to-day management of the portfolio of an account, the account should be included in responding to paragraph (a) of this Item.

3. A Registrant may satisfy the requirement to provide a description of the policies and procedures used by it or the adviser to address conflicts of interest by including a copy of the policies and procedures themselves.

(b) Describe the structure of, and the method used to determine, the compensation of each Portfolio Manager identified in response to Item 6(e). For each type of compensation (e.g., salary, bonus, deferred compensation, retirement plans and arrangements), include a description of the criteria on which that type of compensation is based, for example, whether compensation is fixed, whether compensation is based on the Registrant's pre- or after-tax performance over a certain time period, and whether compensation is based on the value of assets held in the Registrant's portfolio.

*Instructions:*

1. Information should be provided as of the end of the Registrant's most

recently completed fiscal year, except that, in the case of an initial registration statement or an update to the Registrant's registration statement that discloses a new Portfolio Manager, information with respect to any newly identified Portfolio Manager should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. Compensation includes, without limitation, salary, bonus, deferred compensation, and pension and retirement plans and arrangements, whether the compensation is cash or non-cash. The value of compensation is not required to be disclosed under this Item.

3. Include a description of the structure of, and the method used to determine, any compensation received by the Portfolio Manager from the Registrant, the Registrant's investment adviser, or any other source with respect to management of the Registrant and any other accounts included in the response to paragraph (a)(ii) of this Item. This description should clearly disclose any differences between the method used to determine the Portfolio Manager's compensation with respect to the Registrant and other accounts, e.g., if the Portfolio Manager receives part of an advisory fee that is based on performance with respect to some accounts but not the Registrant, this should be disclosed.

(c) For each Portfolio Manager identified in response to Item 6(e), furnish the information required by the following table as to each class of securities owned beneficially or of record by the Portfolio Manager or his immediate family members in:

- (i) The Registrant;
- (ii) Accounts included in the response to paragraph (a)(ii) of this Item; and
- (iii) Any other account, including an investment company, managed or sponsored by the Insurance Company or an investment adviser of the Registrant, or by any person directly or indirectly controlling, controlled by, or under common control with the Insurance Company or an investment adviser or principal underwriter of the Registrant:

(1)	(2)	(3)	(4)
Name of Portfolio Manager	Investment Company or Account	Title of Class	Dollar Range of Securities in the Investment Company or Account

*Instructions:*

1. Information should be provided as of the end of the Registrant's most recently completed fiscal year, except

that, in the case of an initial registration statement or an update to the Registrant's registration statement that discloses a new Portfolio Manager,

information with respect to any newly identified Portfolio Manager should be provided as of the most recent

practicable date. Specify the valuation date by footnote or otherwise.

2. An individual is a "beneficial owner" of a security if he is a "beneficial owner" under either rule 13d-3 or rule 16a-1(a)(2) under the Exchange Act (17 CFR 240.13.d-3 or 240.16a-1(a)(2)).

3. Provide the information required by the table on an aggregate basis for each Portfolio Manager and his immediate family members.

4. For purposes of this Item, the term "immediate family member" means a person's spouse; child residing in the person's household (including step and adoptive children); and any dependent of the person, as defined in section 152 of the Internal Revenue Code (26 U.S.C. 152).

5. In disclosing the dollar range of securities owned by a Portfolio Manager and his immediate family members in column (4), use the following ranges: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000, or over \$1,000,000.

\* \* \* \* \*

9. Form N-CSR (referenced in §§ 249.331 and 274.128) is amended by:

a. Revising the reference "11(a)(1)" in General Instruction D and paragraphs (c) and (f)(1) of Item 2 to read "12(a)(1)";

b. Redesignating Items 8 through 11 as Items 9 through 12; and

c. Adding new Item 8.

The additions and revisions are to read as follows:

#### Form N-CSR

\* \* \* \* \*

#### Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a) If the registrant is a closed-end management investment company that is filing an annual report on this Form N-CSR, provide the following information:

(1) State the name, title, and length of service of the person or persons employed by or associated with the registrant or an investment adviser of the registrant, if any, who are primarily responsible for the day-to-day management of the registrant's portfolio ("Portfolio Manager"). Also state each Portfolio Manager's business experience during the past 5 years.

##### *Instructions to paragraph (a)(1):*

1. Information should be provided as of the date of filing of the report. Disclose the date as of which the information is provided.

2. If a committee, team, or other group of persons associated with an investment adviser of the registrant is

jointly and primarily responsible for the day-to-day management of the registrant's portfolio, information in response to this Item is required for each member of such committee, team, or other group. For each such member, provide a brief description of the person's role on the committee, team, or other group (e.g., lead member).

(2) If a Portfolio Manager identified in response to paragraph (a)(1) of this Item is primarily responsible for the day-to-day management of the portfolio of any other account, provide the following information:

(i) The Portfolio Manager's name;

(ii) The number of other accounts managed within each of the following categories and the total assets in the accounts managed within each category:

(A) Registered investment companies;

(B) Other investment companies;

(C) Other pooled investment vehicles; and

(D) Other accounts.

(iii) For each of the categories in paragraph (a)(2)(ii) of this Item, the number of accounts and the total assets in the accounts with respect to which the advisory fee is based on the performance of the account; and

(iv) A description of any conflicts of interest that may arise in connection with the Portfolio Manager's management of the registrant's investments, on the one hand, and the investments of the other accounts included in response to paragraph (a)(2)(ii) of this Item, on the other. This description would include, for example, conflicts between the investment strategy of the registrant and the investment strategy of other accounts managed by the Portfolio Manager and conflicts in allocation of investment opportunities between the registrant and other accounts managed by the Portfolio Manager. Include a description of the policies and procedures used by the registrant or the registrant's adviser to address any such conflicts.

##### *Instructions to paragraph (a)(2):*

1. Information should be provided as of the end of the registrant's most recently completed fiscal year, except that, in the case of any newly identified Portfolio Manager, information should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. If a committee, team, or other group of persons that includes the Portfolio Manager is jointly and primarily responsible for the day-to-day management of the portfolio of an account, the account should be included in responding to paragraph (a)(2) of this Item.

3. A registrant may satisfy the requirement to provide a description of the policies and procedures used by it or the adviser to address conflicts of interest by including a copy of the policies and procedures themselves.

(3) Describe the structure of, and the method used to determine, the compensation of each Portfolio Manager identified in response to paragraph (a)(1) of this Item. For each type of compensation (e.g., salary, bonus, deferred compensation, retirement plans and arrangements), include a description of the criteria on which that type of compensation is based, for example, whether compensation is fixed, whether compensation is based on the registrant's pre- or after-tax performance over a certain time period, and whether compensation is based on the value of assets held in the registrant's portfolio.

##### *Instructions to paragraph (a)(3):*

1. Information should be provided as of the end of the registrant's most recently completed fiscal year, except that, in the case of any newly identified Portfolio Manager, information should be provided as of the most recent practicable date. Disclose the date as of which the information is provided.

2. Compensation includes, without limitation, salary, bonus, deferred compensation, and pension and retirement plans and arrangements, whether the compensation is cash or non-cash. The value of compensation is not required to be disclosed under this Item.

3. Include a description of the structure of, and the method used to determine, any compensation received by the Portfolio Manager from the registrant, the registrant's investment adviser, or any other source with respect to management of the registrant and any other accounts included in the response to paragraph (a)(2)(ii) of this Item. This description should clearly disclose any differences between the method used to determine the Portfolio Manager's compensation with respect to the registrant and other accounts, e.g., if the Portfolio Manager receives part of an advisory fee that is based on performance with respect to some accounts but not the registrant, this should be disclosed.

(4) For each Portfolio Manager identified in response to paragraph (a)(1) of this Item, furnish the information required by the following table as to each class of securities owned beneficially or of record by the Portfolio Manager or his immediate family members in:

(i) The registrant;

(ii) Accounts included in the response to paragraph (a)(2)(ii) of this Item; investment adviser of the registrant, or by any person directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the registrant;  
 (iii) Any other account, including an investment company, managed by an

(1)	(2)	(3)	(4)
Name of Portfolio Manager	Investment Company or Account	Title of Class	Dollar Range of Securities in the Investment Company or Account

*Instructions to paragraph (a)(4):*

1. Information should be provided as of the end of the registrant's most recently completed fiscal year, except that, in the case of any newly identified Portfolio Manager, information should be provided as of the most recent practicable date. Specify the valuation date by footnote or otherwise.

2. An individual is a "beneficial owner" of a security if he is a "beneficial owner" under either rule 13d-3 or rule 16a-1(a)(2) under the Exchange Act (17 CFR 240.13.d-3 or 240.16a-1(a)(2)).

3. Provide the information required by the table on an aggregate basis for each Portfolio Manager and his immediate family members.

4. For purposes of this Item, the term "immediate family member" means a

person's spouse; child residing in the person's household (including step and adoptive children); and any dependent of the person, as defined in section 152 of the Internal Revenue Code (26 U.S.C. 152).

5. In disclosing the dollar range of securities owned by a Portfolio Manager and his immediate family members in column (4), use the following ranges: none, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000, or over \$1,000,000.

(b) If the registrant is a closed-end management investment company that is filing a report on this Form N-CSR other than an annual report, disclose any change, as of the date of filing, in any of the Portfolio Managers identified in response to paragraph (a)(1) of this

Item in the registrant's most recent annual report on Form N-CSR. In addition, for any newly identified Portfolio Manager, provide the information required by paragraph (a)(1) of this Item as of the date of filing of the report and the information required by paragraphs (a)(2), (a)(3), and (a)(4) of this Item as of the most recent practicable date.

\* \* \* \* \*

Dated: March 11, 2004.

By the Commission.

**J. Lynn Taylor,**

*Assistant Secretary.*

[FR Doc. 04-5951 Filed 3-16-04; 8:45 am]

**BILLING CODE 8010-01-P**