

*www.sec.gov*.<sup>29</sup> A fund will be required to send this description of the fund's proxy voting policies and procedures within three business days of receipt of the request, by first-class mail or other means designed to ensure equally prompt delivery.<sup>30</sup>

Commenters generally supported the proposed disclosure requirements regarding proxy voting policies and procedures. A number of commenters, however, objected to certain aspects of the disclosure requirements. Some commenters recommended that we provide additional, more specific guidelines regarding the categories of disclosure that should be included in proxy voting policies and procedures. These commenters, which included many "socially responsible" fund groups,<sup>31</sup> argued that the absence of specific guidelines could create an incentive for funds to adopt as few policies and procedures as possible, thereby minimizing reporting and disclosure obligations.

We have determined not to prescribe more specific guidelines or requirements for the proxy voting policies and procedures that a fund must disclose in its SAI or Form N-CSR for closed-end funds. The intent of our proposal is to promote transparency with respect to proxy voting information, and not to mandate the content of a fund's policies or procedures. Therefore, we believe that funds should be allowed the flexibility to determine the content that would be appropriate for this disclosure.

We do expect, however, that funds' disclosure of their policies and procedures will include general policies and procedures, as well as policies with respect to voting on specific types of issues. The following are examples of general policies and procedures that some funds include in their proxy voting policies and procedures and with respect to which disclosure would be appropriate:

- The extent to which the fund delegates its proxy voting decisions to its investment adviser or another third party, or relies on the recommendations of a third party;
- Policies and procedures relating to matters that may affect substantially the rights or privileges of the holders of securities to be voted; and

- Policies regarding the extent to which the fund will support or give weight to the views of management of a portfolio company.

The following are examples of specific types of issues that are covered by some funds' proxy voting policies and procedures and with respect to which disclosure would be appropriate:

- Corporate governance matters, including changes in the state of incorporation, mergers and other corporate restructurings, and anti-takeover provisions such as staggered boards, poison pills, and supermajority provisions;
- Changes to capital structure, including increases and decreases of capital and preferred stock issuance;
- Stock option plans and other management compensation issues; and
- Social and corporate responsibility issues.

We are modifying our proposal in one respect, however, to clarify that a fund may satisfy the requirements for a description of its policies and procedures by including a copy of the policies and procedures themselves.<sup>32</sup> A number of commenters recommended that we streamline the disclosure of policies and procedures that would be required in the SAI. Several of these commenters were fund groups that noted that they have funds with multiple sub-advisers, each of which uses its own proxy voting policies and procedures to vote the fund's proxies. Because the proposed rules would require the fund to include a description of each such sub-adviser's policies and procedures in the fund's SAI, commenters argued, the requirements would add lengthy disclosure to the SAI. Further, because different sub-advisers for a single fund could have policies that vary with respect to a particular issue, this disclosure could confuse investors. These commenters argued that disclosure of policies and procedures was not necessary or appropriate given the lack of genuine shareholder interest in the information.

We have determined that it would not be appropriate to modify the proposal to allow a fund to reduce or eliminate the disclosure regarding its proxy voting policies and procedures. Shareholders have a right to know the policies and procedures that are being used by a fund to vote proxies on their behalf. To the extent that multiple policies are being used by a single fund, shareholders should have access to information about

all the policies that are in effect. In order to mitigate the burden of preparing descriptions of policies and procedures, however, we have modified our disclosure requirements to permit a fund to include the actual policies and procedures used to vote proxies in the SAI or N-CSR, rather than a description of the policies.

Some commenters argued that the SAI was not the appropriate location for disclosure of proxy voting policies and procedures because the SAI is not likely to reach a wide base of investors. These commenters argued that the policies and procedures should be required to be distributed to all investors, as part of the fund's prospectus, annual report, or in a separate mailing. We continue to believe, however, that the SAI is the most appropriate and cost-effective location for this disclosure. The disclosure will be readily accessible to shareholders because funds are required to provide an SAI promptly to any investor who requests one.<sup>33</sup> On the other hand, funds and their shareholders will not be forced to bear the costs for printing and mailing this information to every shareholder, without regard to their level of interest in this information.

#### *B. Disclosure of Proxy Voting Record*

The Commission is adopting, with modifications, amendments that will require each fund to file with the Commission its proxy voting record and make this record available to its shareholders. The Commission is not, however, adopting its proposal to require a fund to disclose in its annual and semi-annual reports to shareholders information regarding any proxy votes that are inconsistent with its proxy voting policies and procedures.

The proposal to require funds to disclose their proxy voting records generated strong and divergent views among commenters. A number of commenters, including an overwhelming number of individual investors, strongly supported the Commission's proposal to require a fund to disclose its complete proxy voting record. Many of these commenters stated that this disclosure would improve shareholders' ability to monitor funds' voting decisions on their behalf and that it would allow investors to make more informed decisions when choosing among funds.

<sup>29</sup> See Item 22(b)(7) and 22(c)(5) of Form N-1A; Instructions 4.g. & 5.e. to Item 23 of Form N-2; Instructions 4(vii) & 5(v) to Item 27(a) of Form N-3.

<sup>30</sup> Instructions to Items 22(b)(7) and 22(c)(5) of Form N-1A; Instruction 6.a. to Item 23 of Form N-2; Instruction 6(i) to Item 27(a) of Form N-3.

<sup>31</sup> "Socially responsible" funds use social and moral criteria as well as traditional investment criteria to select investments.

<sup>32</sup> Instruction 1 to Item 13(f) of Form N-1A; Instruction 1 to Item 18.16 of Form N-2; Instruction 1 to Item 20(o) of Form N-3; Instruction to Item 7 of Form N-CSR.

<sup>33</sup> Instruction 3 to Item 1(b)(1) of Form N-1A (requiring fund or financial intermediary through which shares of the fund may be purchased or sold to send the SAI, within three business days of receipt of the request, by first-class mail or other means designed to ensure equally prompt delivery).