

breakpoint disclosure information on their Web sites?

- Are there other measures that we should consider in order to encourage mutual funds to provide disclosure regarding sales loads and breakpoints on their Web sites in a prominent and readily accessible manner?

- Are there other mechanisms besides prospectus and Web site disclosure to better inform investors about breakpoints to which they may be entitled (*e.g.*, requiring a financial intermediary to provide a document prior to share purchase that describes breakpoint discounts, or requiring this information to be included in shareholder reports, account statements, or confirmations)?

E. Presentation Requirements

Our proposals would require that the disclosure in Item 8(a)(2) regarding arrangements resulting in breakpoints in, or elimination of, sales loads, and all other sales load disclosure required by Item 8(a), be adjacent to the table of sales loads and breakpoints required by Item 8(a)(1).³⁰ This would include the description of sales loads required by Item 8(a)(1), as well as the information about breakpoints, including valuation methods, shareholder information and records, and Web site availability that would be required by proposed Items 8(a)(3), (4), and (5). The proposals also would require that a mutual fund present the information required by Item 8(a) in a clear, concise, and understandable manner, and include tables, schedules, and charts as expressly required by Item 8(a)(1) or where doing so would facilitate understanding.³¹ These requirements are intended to encourage mutual funds to present information regarding sales loads and breakpoints in an integrated manner that will be easily understood by investors, which would address the Task Force recommendation that critical data regarding pricing methods, breakpoint schedules, and linkage rules be presented in a prominent and clear format.

General Instruction C.3.(a) to Form N-1A currently requires the information required by Item 8 to be in one place in the prospectus. This includes the information about sales loads and breakpoints required by Item 8(a)(1), information about 12b-1 fees required by Item 8(b), and information about multiple class and master-feeder funds required by Item 8(c). It does not

include the information on breakpoints required by Item 8(a)(2) because this information may be included in the SAI or in a separate purchase and redemption document pursuant to Item 7(f). Item 7(f) of Form N-1A permits a mutual fund to omit from the prospectus information about purchase and redemption procedures required by Items 7(b)-(d)³² and 8(a)(2) and provide it in a separate disclosure document if the fund delivers the document with the prospectus, incorporates the document into the prospectus by reference and files the document with the prospectus, and provides disclosure explaining that the information disclosed in the document is part of, and incorporated into, the prospectus.

Under our proposals, Item 7(f) would continue to permit the information required by Item 8(a)(2) to be included in a separate purchase and redemption document.³³ In addition, we are proposing to amend Item 7(f) to permit the information about breakpoints required by proposed Items 8(a)(3), (4), and (5) (*i.e.*, valuation methods, shareholder information and records, and Web site availability) to be included in the separate purchase and redemption document. We are also proposing to amend General Instruction C.3.(a) to Form N-1A to make it clear that this information may be disclosed in a separate purchase and redemption document, provided that all the information required by paragraphs 8(a)(2), (3), (4), and (5) is included in the separate document. This instruction will also clarify that if the information required by paragraphs 8(a)(2)-(5) is disclosed in a separate purchase and redemption document, the table of sales loads and breakpoints required by Item 8(a)(1) must be included in the separate purchase and redemption document, as well as the prospectus, in order to comply with the proposed requirement that all disclosure required by Item 8(a) be adjacent to the table of sales loads and breakpoints.

We request comment generally on the proposed requirements for presentation of information about sales loads and breakpoints and specifically on the following:

- Will our proposal to require that the disclosure regarding sales loads and breakpoints required by Item 8(a)(1) and (a)(2) be presented in a clear, concise, and understandable manner, and

include tables, schedules, and charts where expressly required by Item 8(a)(1) or where doing so would facilitate understanding result in disclosure that is easily understood by investors? Are there additional requirements that we should adopt regarding the presentation of this information?

- Should we require that the sales load and breakpoint information required by Item 8 be adjacent to the table of sales loads and breakpoints required by Item 8(a)(1)? Are there other ways to ensure that all information related to breakpoints is provided in an integrated manner that will facilitate investor understanding? Should we adopt a "close proximity" or other standard instead of an "adjacent" standard?

- For a mutual fund that includes information about breakpoints in a separate purchase and redemption document, would the requirement that the table of sales load and breakpoint information required by Item 8(a)(1) appear in both the prospectus and the separate document result in unnecessary duplication? If so, how should we address this duplication, which arises from the existing requirement that the table be included in the prospectus along with other information currently required by Item 8 and the proposed requirement that all information about breakpoints be adjacent to the table? If we do not require the information about breakpoints required by proposed Items 8(a)(2)-(5) to be adjacent to the table, how should we address the Task Force recommendation that we require a mutual fund to provide critical data regarding pricing methods, breakpoint schedules, and linkage rules in a prominent and clear format? Should we require all information required by Item 8 to be in the prospectus? Should we permit all information required by Item 8 to be in the separate purchase and redemption document?

- Should we continue to permit the separate purchase and redemption document? Does this document facilitate investor understanding of the information it contains? We note that, in a recent release, we proposed to amend Item 7 to require new disclosure regarding frequent purchases and redemptions to be included in the prospectus and not a separate purchase and redemption document.³⁴ To what extent do funds currently use the separate purchase and redemption document? If we should continue to permit this document, what information

³⁰ Proposed Instruction to Item 8(a) of Form N-1A.

³¹ *Id.* Cf. rule 421 under the Securities Act of 1933 (17 CFR 230.421) (plain English requirements for prospectuses).

³² Items 7(b)-(d) require a description of the procedures for purchasing and redeeming the fund's shares, as well as the fund's policy with respect to dividends and distributions.

³³ We are, however, proposing to eliminate, as duplicative, the reference to this procedure in Item 8(a)(2).

³⁴ Investment Company Act Release No. 26287 (Dec. 11, 2003).