

SEC modernizes fund shareholder reports, and certain fee and expense disclosures in advertisements

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The SEC's new amendment requires that mutual funds and exchange-traded funds highlight certain key information in annual and semi-annual shareholder reports and provide additional fee and expense-related disclosures in advertisements.

Introduction

On October 26, 2022, the Securities and Exchange Commission (SEC) [adopted](#) new rule and form amendments (the Amendments) that require mutual funds and exchange-traded funds to (i) transmit annual and semi-annual shareholder reports that highlight certain key information such as fund expenses, performance and portfolio holdings, (ii) make available additional information that may be relevant to investors and financial professionals and (iii) provide enhanced expense-related disclosures in investment company advertisements. The new rule also excludes open-end registered investment companies from the scope of Rule 30e-3 under the Investment Company Act of 1940 (Investment Company Act) so that open-end fund shareholders directly receive the enhanced shareholder reports. The primary elements of the Amendments include:

- **Shareholder reports (annual and semi-annual):** Mutual funds and ETFs that are registered on Form N-1A (open-end funds) must:
 - Transmit to shareholders concise and visually engaging annual and semi-annual reports that highlight information that is “particularly important” for shareholders to assess and monitor their fund investments on an ongoing basis.
 - This information must be tagged in shareholder reports using Inline XBRL structured data language.
- **Availability of additional information on form N-CSR and online:**
 - Open-end funds must (i) make available online, (ii) deliver to investors upon request (free of charge), and (iii) report on Form N-CSR certain information that may be relevant to investors and financial professionals who desire more in-depth information.
 - This information includes, for example, a fund’s schedule of investments and other financial statement components.
 - The Amendments also include requirements regarding how open-end funds present this information online so that investors can easily access and navigate it.
- **Amendments to scope of Rule 30e-3 to exclude open-end funds:**
 - The Amendments exclude open-end funds from the scope of Rule 30e-3 under the Investment Company Act, which permits certain registered investment companies to satisfy shareholder report transmission requirements by

posting these reports and other materials online and notifying shareholders of the reports' online availability.

– The SEC specifies that the Amendments will not affect the availability of Rule 30e-3 for closed-end funds and management companies that offer variable annuity contracts.

– **Fee and expense information in investment company advertisements:**

- The Amendments require that presentations of fees and expenses in the advertisements and sales literature of registered investment companies and BDCs be consistent with relevant prospectus fee table presentations and be “reasonably current.”
- The Amendments also address representations of fees and expenses that could be materially misleading.

Effective date and transition period

The Amendments will become effective 60 days after publication in the Federal Register (the Effective Date). The SEC is providing an 18-month transition period for open-end funds to comply with the Amendments, except for (i) the final rule amendments to Rule 156 that address materially misleading representations of fees and expenses and (ii) certain technical amendments to Form N-1A, which will apply as of the Effective Date.

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