

**Memorandum To Clients and Friends**

**New Breakpoint Discount Disclosure  
Requirements in Mutual Fund Prospectuses**

**Introduction**

The Securities and Exchange Commission recently adopted amendments to Form N-1A to provide for enhanced disclosure of sales loads and breakpoint discounts in registered open-end investment company (“fund”) prospectuses.<sup>1</sup> Currently, Item 7 of Form N-1A requires a fund to disclose its schedule of breakpoints in its prospectus. A fund may disclose methods for determining breakpoints, such as letters of intent and rights of accumulation, in either its prospectus or statement of additional information (“SAI”). The amendments will require a fund to briefly describe these arrangements, including a summary of the shareholder eligibility requirements, in its prospectus. The amendments also require disclosure of additional information about valuation methods, shareholder information and records, and website availability.

**Compliance Dates**

- Effective Date of the new disclosure: **July 23, 2004**.
- Compliance Date for initial registration statements and post-effective amendments that are annual updates or that add a new series: **Filed on or after September 1, 2004**.

**New Disclosure in Prospectuses**

The amendment to Item 7 of Form N-1A require the following disclosure in a fund’s prospectus:

- Breakpoints
  - A brief discussion of arrangements that result in breakpoints or elimination of sales loads. Currently, this information may be disclosed in the SAI.<sup>2</sup>

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<sup>1</sup> Investment Company Act Release No. 26464 (June 7, 2004).

<sup>2</sup> Funds must disclose information about arrangements such as letters of intent, accumulation plans, dividend reinvestment plans, withdrawal plans, exchange privileges, employee benefit plans, redemption reinvestment plans, and waivers for particular classes of investors. Disclosure regarding breakpoints for affiliated persons of the fund and breakpoints in connection with a

- A brief summary of shareholder eligibility requirements, including a description or list of the types of accounts, account holders, and fund holdings that may be aggregated for purposes of determining eligibility.<sup>3</sup>
- Valuation
  - A description of the methods a fund uses to value accounts to determine whether a shareholder has met sales load breakpoints, including the circumstances in which, and the classes of individuals to whom, each method applies, and the method used, whether historical cost, net amount invested, or offering price.
- Shareholder Information and Records
  - A statement, if applicable, that at the time of purchase it may be necessary for a shareholder to inform the fund (or his or her financial intermediary) of the existence of any other accounts with holdings that may be eligible to be aggregated to meet breakpoints, which would include:
    - ◆ A description of any information or records that a shareholder may have to provide to the fund or his or her financial intermediary to verify the shareholder’s eligibility for breakpoints, including information or records regarding shares of the fund or other funds held (i) in any of the shareholder’s accounts at the financial intermediary, (ii) in any of the shareholder’s accounts at another financial intermediary, and (iii) at any financial intermediary by related parties of the shareholder.
    - ◆ If a fund determines breakpoints based on historical cost, a statement that a shareholder should retain any records necessary to substantiate historical costs because the fund, its transfer agent, and financial intermediaries may not retain this information.
- Website Availability
  - A statement of whether the information required in a fund’s prospectus and statement of additional information about sales loads and breakpoints is available on the fund’s website, free of charge, and in a clear and prominent format. The fund also should state whether the website uses hyperlinks to access the information. If the fund does not provide this information on its website, it must disclose its reasons why.

### **Presentation of Disclosure**

The information regarding breakpoints or elimination of sales loads, including description of sales loads, valuation methods, shareholder information and records, and

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reorganization would continue to be disclosed in a fund’s SAI. If a fund provides this information in its SAI, then it must provide a cross-reference to that SAI disclosure in its prospectus.

<sup>3</sup> Examples of types of accounts include, retirement accounts and accounts held at other financial intermediaries. Examples of accountholders include, immediate family members, family trust accounts, and solely controlled business accounts. Examples of fund holdings include, funds held within the same fund complex.

website availability, is required to appear adjacent to the table of sales loads and breakpoints currently required by Item 7(a)(1) of Form N-1A. The information must be presented in a clear, concise, and understandable manner and should be disclosed using tables, schedules, and charts where expressly required or where they would facilitate shareholder understanding.

### **Separate Purchase and Redemption Document**

Currently, a fund may disclose information regarding breakpoints in a separate purchase and redemption document.<sup>4</sup> The amendments will continue to permit this separate disclosure document. The amendments also permit the new disclosure about valuation methods, shareholder information and records, and website availability to be disclosed in the separate purchase and redemption document.<sup>5</sup> The separate document must disclose all of this information. If a fund chooses to include this information in a separate purchase and redemption document, the fund must also include the table of sales loads and breakpoints required by Item 7(a)(1). This table would also be required to appear in a fund's prospectus.

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If you have any questions, please contact us at (202) 737-8833 for more information.

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<sup>4</sup> Information required by Item 7(a)(2) of Form N-1A.

<sup>5</sup> Information required by Items 7(3), (4), and (5) of Form N-1A.