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Statement of the Shadow Financial Regulatory Committee

On

Statement on the Disclosure of Portfolio Holding of Registered Investment Companies

December 9, 2002

This week the Securities and Exchange Commission (SEC) will consider a proposal to require registered investment companies (which includes mutual funds) to disclose their complete portfolio holdings quarterly rather than semi-annually. The Shadow Financial Regulatory Committee applauds a move to more frequent disclosure of portfolio holdings, but believes that the reporting interval should be even more frequent – monthly not quarterly. Increasing the frequency of disclosure (and standardizing reporting dates) would materially enhance the value of such information to investors. Moreover, this disclosure could be accomplished in a way that would reduce costs to registered investment companies, while providing more information to investors.

The notice of its meeting sketches the broad outline of the SEC proposal regarding disclosure of portfolio holdings. First, it would require registered investment companies to disclose their portfolio holdings in a quarterly filing to the SEC. Second, it would permit a registered investment company to provide a summary of its holdings in a tabular or graphical form in its written reports to investors in place of a complete list of portfolio holdings, which is the current practice.

In contrast to the proposed quarterly reporting frequency, the Committee believes that the reporting frequency should be monthly. Large pension funds and other sophisticated investors that hold portfolios similar to those of investment management companies routinely utilize monthly data to analyze investment performance, risk and shifts in investment style. Monthly data should be available to individual investors as well.

Registered investment companies routinely have such data available, so this would not be an additional burden or cost to them.

More frequent disclosure will improve the ability of investors to analyze the investment performance of fund managers and thereby make better investment decisions. The disclosures should be made on the SEC's website in such a way that they are accessible to individual investors at no cost. It is likely, nonetheless, that the most intensive users of such data will be professional evaluators of fund performance who will interpret the data and provide analysis for investors.

One possible objection to more frequent reporting is that it would impose greater costs on shareholders of registered investment companies, but costs, in fact, should decrease. The substitution of tabular or graphic summaries for the full listing of portfolio holdings will reduce the length of reports and thus the costs of printing and mailing reports. Since investment management companies already have such data in electronic form, the ongoing costs should be minimal.

It may be possible to reduce printing and mailing costs further by eliminating written semi-annual reports. We urge the SEC to reevaluate the benefits of semi-annual reports relative to their costs in view of the expanded disclosure of portfolio holdings.

Another possible objection to more frequent reporting of portfolio holdings is that it will reveal proprietary information regarding the investment strategy of a fund manager to other investors who would then be able to "front run" its strategy to the detriment of its shareholders. Currently, registered investment companies must disclose to their shareholders the complete portfolio holdings semiannually and within 60 days of the end of each period. If the same 60 days applies to the new disclosure requirements, the committee believes that there is no reason monthly or quarterly disclosure would have any deleterious effects.

Lastly, an important defect of the current disclosure regime is that a registered investment company has the option of reporting according to either the calendar year or its fiscal year. The resulting lack of standardization of reporting dates impedes comparisons across funds. Whether the SEC moves to quarterly or monthly reporting, or even if it retains the current semi-annual requirement, this defect should be corrected. All funds should report on a calendar year basis.