

106TH CONGRESS
1ST SESSION

H. R. 1089

To require the Securities and Exchange Commission to require the improved disclosure of after-tax returns regarding mutual fund performance, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 11, 1999

Mr. GILLMOR (for himself, Mr. OXLEY, Mr. MARKEY, Mr. TOWNS, Mr. WHITFIELD, Mr. LARGENT, Mr. WAXMAN, Mr. DEAL of Georgia, Mr. BURR of North Carolina, Mr. TAUZIN, and Mr. HALL of Texas) introduced the following bill; which was referred to the Committee on Commerce

A BILL

To require the Securities and Exchange Commission to require the improved disclosure of after-tax returns regarding mutual fund performance, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Mutual Fund Tax
5 Awareness Act of 1999”.

6 **SEC. 2. FINDINGS.**

7 The Congress finds the following:

1 (1) Taxes can be the single biggest cost associ-
2 ated with mutual funds. The average stock fund in-
3 vestor has lost up to 3 percentage points of return
4 every year to taxes.

5 (2) The average portfolio turnover rate for an
6 actively managed (nonindex) fund has increased
7 from 30 percent 20 years ago to almost 90 percent
8 today, and average capital gains distributions of
9 growth funds, per share, have more than doubled in
10 the last 10 years.

11 (3) If a fund's performance is based mostly on
12 short-term gains, investors can lose a significant
13 part of their return to taxes.

14 (4) Performance figures that investment compa-
15 nies generally disclose to their shareholders are net
16 of fees and expenses, but not taxes, and therefore do
17 not represent the impact taxes have on an investor's
18 return.

19 (5) This disclosure focuses on how much money
20 investors made before taxes, and not on how much
21 money investors actually got to keep.

22 (6) Improved disclosure of tax efficiency would
23 allow shareholders to compare after-tax returns to
24 raw performance, and would permit the investors to

1 determine whether the fund manager tries to mini-
2 mize tax consequences for shareholders.

3 (7) While the investment company prospectus
4 details the average annual portfolio turnover rate,
5 the prospectus may not expressly inform sharehold-
6 ers about the impact the portfolio turnover rate has
7 on total returns.

8 **SEC. 3. IMPROVEMENTS IN DISCLOSURE REQUIREMENTS.**

9 Within 1 year after the date of enactment of this Act,
10 the Securities and Exchange Commission shall revise reg-
11 ulations under the Investment Company Act of 1940 to
12 require, consistent with the protection of investors and the
13 public interest, improved methods of disclosing in invest-
14 ment company prospectuses and annual reports the after-
15 tax effects of portfolio turnover on investment company
16 returns to investors.

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