

***BY FACSIMILE AND U.S. MAIL***

June 28, 2000

Jonathan G. Katz  
Secretary  
Securities and Exchange Commission  
450 5<sup>th</sup> Street, N.W.  
Washington, D.C. 20549-0609

***Re: Rulemaking Petition***

Dear Mr. Katz:

The Financial Planning Association (“FPA”)<sup>1</sup> hereby petitions the Commission to adopt rules designed to improve the disclosure of portfolio holdings of mutual funds to shareholders and their investment advisers. The majority of FPA members are investment advisers who frequently make mutual fund recommendations to their clients as part of the financial planning process, including many whom also actively manage client portfolios containing mutual fund holdings.

Financial planners and consumers who make their own investment decisions are primarily concerned with improved disclosure to help them identify style drift in a fund’s securities. Style drift is an industry term used to describe a conflict between the actual equity holdings and the stated investment objectives of a mutual fund. A significant difference between the two can negatively affect portfolio returns and increase volatility. We believe that greater transparency in fund holdings under revised SEC rules would help financial planners make better-informed asset allocation decisions or investment recommendations on behalf of their clients, as well as benefit the individual investor.

Current SEC rules require funds with style and/or sector specific names (such as “value fund,” “growth fund,” “utility fund,” or “corporate bond fund”) to invest at least 65 percent of their assets in that type of security. We ask the SEC to increase the 65 percent threshold to a more

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<sup>1</sup> The Financial Planning Association is the largest organization in the United States representing financial planners and affiliated firms. FPA was formed on January 1, 2000, as a result of the combination of two existing non-profit financial planning associations, the Institute of Certified Financial Planners and the International Association for Financial Planning. FPA maintains administrative offices in Atlanta and Denver, and a government relations office in Washington, D.C.

meaningful percentage to further restrict style drift. In a related matter, current SEC rules require semi-annual reporting of a fund's securities holdings. This means financial planners' mutual fund recommendations could be based on information that is as much as eight months old. As mentioned earlier, many financial planners also provide asset management services that requires ongoing monitoring, and if necessary, re-balancing of client portfolios. We urge the SEC to adopt rules increasing the frequency of reporting a fund's securities holdings.

At the same time, FPA recognizes the costs and regulatory burdens associated with increased disclosure requirements, and is sensitive to addressing such concerns in a new rulemaking. For example, in connection with any rule proposal requiring stepped-up reporting of security holdings, the SEC should consider exceptions on a case-by-case basis, or it may limit the new reporting requirements to the top 25 holdings, etc., including disclosure of holdings in currently required semi-annual reports.

To further address concerns with industry costs, the FPA believes that increased "publicly accessible" information on securities holdings should be "passively" available over the Internet, not a mandatory delivery requirement. At a time when investors are already inundated by required disclosures or marketing materials from the fund industry, new mailings or electronic delivery requirements are not needed. Greater use of passive disclosure would save investors money and probably yield even more information. We believe the primary beneficiaries of such requirements -- those who are interested and willing to take advantage of increased access to free information over the Internet, principally investment advisers and active investors -- should have the obligation to access that information on their own.

In summary, the FPA believes that it is critical for the Commission to require mutual funds to enhance the disclosure of information about their portfolio holdings so that investors and their professional advisers can make better informed investment decisions.

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We would be pleased to respond to any questions in connection with these comments. Please do not hesitate to contact the undersigned at 202.626.8770.

Sincerely,



Duane R. Thompson  
Director of Government Relations

cc: The Honorable Arthur Levitt  
The Honorable Isaac C. Hunt, Jr.  
The Honorable Paul R. Carey  
The Honorable Laura S. Unger  
Paul F. Roye, Esq.