

MEMO# 4721

April 21, 1993

LEGISLATION AMENDING SMALL ACCOUNT REDEMPTION PROCEDURE PASSED IN MARYLAND

April 21, 1993 TO: STATE SECURITIES MEMBERS NO. 19-93 OPERATIONS MEMBERS NO. 21-93 SEC RULES COMMITTEE NO. 39-93 TRANSFER AGENT ADVISORY COMMITTEE NO. 29-93 RE: LEGISLATION AMENDING SMALL ACCOUNT REDEMPTION PROCEDURE PASSED IN MARYLAND _____ The Institute is pleased to inform you that legislation amending the procedure for redemption of small accounts by a mutual fund has passed both houses of the Maryland Legislature. The legislation is expected to be signed by the Governor in the near future and would be effective as of October 1, 1993. House Bill 392 provides that a mutual fund may redeem shares of its stock if the fund's charter expressly provides for such. If the fund's charter does not expressly provide for the redemption of its shares, the following conditions must be met: (1) the aggregate net asset value of the account, as of the date of redemption, must be \$500 or less; (2) written notice must be given to the shareholder of record that is mailed first class mail to the last known address of record; (3) the notice must state that all of the shares will be redeemed and establish a date of redemption which is at least 45 days from the date of the notice; and (3) the price to be paid for shares redeemed under this provision shall be the aggregate net asset value of the shares at the close of business on the date of the redemption. (However, please note that if the aggregate net asset value of the shares increases to an amount greater than \$500 between the date of the notice and the date of redemption, the notice of redemption shall have no effect.) As you may recall, this legislation was necessary since the current statutory provision outlining the procedure for redemption of small accounts could have been construed to cover all mutual funds organized in Maryland and is generally inconsistent with the procedure adopted by most funds to redeem small accounts. Specifically, 2-310.1 currently requires a fund to give written notice to the shareholder that is personally delivered or mailed by registered or certified mail and grants the shareholder the right to object to the redemption. As noted above, House Bill 392 amends the manner notice must be given to shareholders and repeals the right of the shareholder to object to the redemption. A copy of House Bill 392 is attached. Patricia Louie Associate Counsel Attachment