

**MEMO# 9290**

September 30, 1997

# **COMMENT LETTER ON PROPOSED AMENDMENTS TO NASD SALES CHARGE RULES**

1 See Memorandum to SEC Rules Committee No. 76-97, dated August 6, 1997. 2 See Memorandum to SEC Rules Committee No. 85-97, dated September 5, 1997. [9290] September 30, 1997 TO: SEC RULES COMMITTEE No. 96-97 RE: COMMENT LETTER ON PROPOSED AMENDMENTS TO NASD SALES CHARGE RULES

As previously indicated, NASD Regulation, Inc. recently solicited comments on proposed changes to its rules governing investment company sales charges.<sup>1</sup> A copy of the Institutes comment letter as filed with NASDR is attached, and it is summarized below. With the exception of our comments on the proposed prohibition on loads on reinvested dividends, the comment letter is virtually identical to the draft letter we circulated to you earlier this month.<sup>2</sup> Funds of Funds The letter recommends that NASDR clarify that the cumulative limits imposed on asset-based sales charges under NASD Conduct Rule 2830 would continue to apply individually to the acquiring and acquired funds in a fund of funds structure. It further recommends that in the case of an affiliated fund of funds in which an acquired fund has an asset-based sales charge, the acquired fund be required to exclude sales made to the acquiring fund when calculating total new gross sales for purposes of applying the cumulative sales charge limits. The letter states that this approach would ensure that investors are not subjected inappropriately to sales charges at two levels. The letter also recommends certain technical revisions to NASDRs proposal with respect to funds of funds. Installment Loads The letter supports the proposed definition of "deferred sales charge," which would be consistent with the definition of "deferred sales load" in Rule 6c-10 under the Investment Company Act of 1940 and would permit installment loads. Loads on Reinvested Dividends 2The attached letter, unlike the earlier draft, opposes the proposed prohibition on loads on reinvested dividends. It notes that while virtually no mutual funds currently impose such loads, certain unit investment trusts do so pursuant to SEC exemptive orders. The letter recommends that NASDR treat deferred loads on reinvested dividends the same as it currently treats front-end loads on reinvested dividends, i.e., subject them to lower maximum sales charge limits. CDSL Calculations The letter states that the Institute does not object to the proposed reinstatement of requirements concerning the order in which shares of a fund with a contingent deferred sales load must be redeemed. Prospectus Disclosure The letter supports NASDRs proposal to eliminate the current prospectus disclosure requirement regarding the long-term effects of Rule 12b-1 plans, in deference to the SECs pending proposed amendments to Form N-1A (which would require similar disclosure). Frances M. Stadler Associate Counsel Attachment (in .pdf format)

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