

MEMO# 19947

April 10, 2006

ICI Comment Letter on the SEC's Proposed Revisions to the Redemption Fee Rule

©2006 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [19947] April 10, 2006 TO: BROKER/DEALER ADVISORY COMMITTEE No. 16-06 BANK, TRUST AND RECORDKEEPING ADVISORY COMMITTEE No. 14-06 OPERATIONS MEMBERS No. 10-06 SMALL FUNDS MEMBERS No. 29-06 SEC RULES MEMBERS No. 34-06 TRANSFER AGENT ADVISORY COMMITTEE No. 28-06 TECHNOLOGY ADVISORY COMMITTEE No. 8-06 RE: ICI COMMENT LETTER ON THE SEC'S PROPOSED REVISIONS TO THE REDEMPTION FEE RULE As we previously informed you, the Securities and Exchange Commission recently published for comment its long-expected amendments to Rule 22c-2, the redemption fee rule.* The amendments are intended to address concerns that came to the Commission's attention through comments it received when it adopted Rule 22c-2 in March 2005. The amendments: (1) exclude small nominee accounts from the definition of "financial intermediary;" (2) address the rule's application to "chain of intermediary" situations; and (3) clarify the consequence of a financial intermediary not executing the required "shareholder information agreement" with the fund. The Release also sought comment on whether the rule's original compliance date of October 16, 2006, which remains in effect, should be revised or extended. The Institute's comment letter, which is attached, is summarized below. The Institute's letter strongly supports the proposed revisions. It recommends that the Commission extend the rule's compliance date six months from the later of October 16, 2006 (the current compliance date) or the date the proposed amendments to the rule are adopted. As discussed in the letter, this extension is necessary for funds and their intermediaries to implement the rule, particularly the provisions requiring shareholder information agreements to be executed. * See Mutual Fund Redemption Fees, SEC Release No. IC-27255 (Feb. 28, 2006) (the "Release"). The Release is available on the SEC's website at: <http://www.sec.gov/rules/proposed/ic-27255.pdf>. 2 The letter also recommends that the Commission close an inadvertent gap in the rule. In particular, we recommend that the Commission revise the rule's definition of "financial intermediary" to include any person that, on behalf of a financial intermediary, submits purchase or sale orders directly to the fund. This revision will assure that funds have access, through a shareholder information agreement, to a financial intermediary's trading data without regard to whether the intermediary submits orders to the fund directly or through another entity that transacts business directly with the fund on the intermediary's behalf. The letter seeks clarification of two issues raised by the rule. The first relates to the requirement that financial intermediaries implement any instructions from a fund to restrict or prohibit purchases of

fund shares. The letter recommends that the Commission clarify that, as used in the rule, the term “purchase” does not include automatic dividend reinvestments. The second issue relates to a financial intermediary’s duty to provide to a fund, upon request, a shareholder’s taxpayer identification number (TIN). In recognition of the fact that foreign shareholders may not have TINs, the letter recommends that the Commission permit the use of another unique, government-issued identifier in lieu of a TIN, such as an individual taxpayer identification number (ITIN). Tamara K. Salmon Senior Associate Counsel Note: Not all recipients receive the attachment. To obtain a copy of the attachment, please visit our members website (<http://members.ici.org>) and search for memo 19947, or call the ICI Library at (202) 326-8304 and request the attachment for memo 19947. Attachment (in .pdf format)

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