INVESTMENT COMPANY INSTITUTE

MEMO# 5863

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BOARD OF GOVERNORS ADOPTS VOLUNTARY NOMENCLATURE STANDARDS FOR MULTIPLE CLASS FUNDS

May 16, 1994 TO: MARKETING POLICY COMMITTEE NO. 21-94 MEMBERS - ONE PER COMPLEX NO. 31-94 OPERATIONS MEMBERS NO. 21-94 PUBLIC INFORMATION COMMITTEE NO. 16-94 SALES FORCE MARKETING COMMITTEE NO. 16-94 RE: BOARD OF GOVERNORS ADOPTS VOLUNTARY NOMENCLATURE STANDARDS FOR MULTIPLE CLASS FUNDS ____ In recognition of the potential for investor confusion presented by the possible proliferation of divergent nomenclatures for the class designations of investment companies with multiple classes of shares, the Board of Governors of the Investment Company Institute, at its May 4, 1994 meeting, adopted as voluntary industry guidelines, the standardized multiple class nomenclature conventions set forth in the attached table. Background As you are aware, the growth in the number of funds offering multiple classes of shares over the recent past has been enormous. At the end of 1993, there were 84 complexes offering 1,343 funds with a multiple class structure. Early in 1993, at meetings of the Sales Force Marketing and Operations Committees, members expressed concern about the absence of industry standardization in connection with the nomenclature for classes of shares. The concern is that, without some standardization, the growing number of classes and the diversity of class designations will hamper and lead to confusion in communications between and among funds, brokers and shareholders. A further concern is that confusion of shareholders could lead to an arbitrary, mandated solution through legislation or regulation. Accordingly, a joint task force of Sales Force Marketing and Operations Committee members was formed to consider the advisability of recommending voluntary guidelines for naming classes of new multiple class funds. The task force agreed unanimously that a continued proliferation of multiple classes of shares in the absence of some standardization will (1) lead to investor uncertainty and confusion, (2) create confusion among brokers and other intermediaries, (3) lead to corresponding operations problems, and (4) invite criticism that investors are facing too many choices. An initial proposal was developed by the task force as a suggested set of voluntary, general guidelines for fund sponsors to consider when structuring multiple class offerings in the future. The proposal of the task force was exposed for comments to the following Institute committees: Direct Marketing Public Information Industry Statistics Sales Force Marketing Marketing Policy SEC Rules Operations Shareholder Communications Based on written and verbal input from members, the proposal was revised as necessary to incorporate sufficient flexibility to reflect the majority of multiple class structures currently in existence and to accommodate future innovation. The Guidelines The guidelines, which are presented in the attached table, suggest a structure of distribution-related properties for four retail and two non-retail classes, as follows: Retail Classes Non-Retail Classes Class A: Front End Load Class Y: Institutional Class B: Back End Load Class Z: Employees Class C: Level Load Class D: Hybrid Level Load Each class is described in terms of whether or not it includes each of five separate features -- namely, front end load, back end load, asset based sales charge, service fee and automatic conversion. (Automatic conversion is an arrangement wher an investor's shares in a particular class are automatically converted to shares in a different class after a specified period of time.) The guidelines were developed from the perspective of the investor. For example, under the guidelines, a class could be considered to have no front end load if an investor pays no front end load, irrespective of whether a salesperson receives compensation from the distributor at the point of sale. A note accompanying the proposal clarifies that the guidelines are meant to address only the issue of standardized nomenclature. They are not intended in any way to impose restrictions on or 3otherwise affect the types or amounts of any sales-related charges permitted under law. Ongoing Review To assure that the voluntary guidelines may be revised or expanded as necessary to reflect future developments in the marketplace, the Institute's Marketing Policy Committee will annually review the guidelines and submit to the consideration of the Institute's Executive Committee and Board of Governors any recommended changes. Any questions you might have with respect to these voluntary guidelines should be addressed to Donald Boteler, Vice President - Operations (202/326-5845, FAX 202/326-5841). Matthew P. Fink President

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