

MEMO# 17745

July 1, 2004

INSTITUTE URGES IMPLEMENTATION OF NASD BREAKPOINT TASK FORCE RECOMMENDATION TO DISPLAY SALES CHARGE RATE ON INVESTOR CONFIRMS

ACTION REQUESTED [17745] July 1, 2004 TO: OPERATIONS COMMITTEE No. 13-04 BANK AND TRUST ADVISORY COMMITTEE No. 14-04 BROKER/DEALER ADVISORY COMMITTEE No. 21-04 TRANSFER AGENT ADVISORY COMMITTEE No. 60-04 RE: INSTITUTE URGES IMPLEMENTATION OF NASD BREAKPOINT TASK FORCE RECOMMENDATION TO DISPLAY SALES CHARGE RATE ON INVESTOR CONFIRMS I. BACKGROUND As previously reported to you, in July 2003, the Joint NASD/Industry Task Force on Breakpoints issued a report, setting forth thirteen recommendations (Recommendations A-M) to address errors and failures in providing breakpoint discounts to investors in connection with the purchase of mutual fund shares that carry a front-end sales load.¹ Subsequent to the issuance of the Report, working groups of ICI and SIA members and NSCC were formed to further define and voluntarily implement the Reports' recommendations. The NASD published a status report earlier this year on the progress that has been made towards implementing the Task Force's recommendations.² With respect to recommendations in progress, we are pleased to inform you that the NSCC has recently issued an Important Notice regarding the implementation of proposed Recommendation D, which relates to confirmation disclosure of sales load paid on each transaction in percentage terms.³ This information will assist investors in determining whether they received the appropriate breakpoint discounts to which they were entitled. The NSCC modifications to Fund/SERV⁴ order confirmations are detailed in Important Notice A# 5834, dated June 4, 2004, which is located on the NSCC website at <http://www.nsc.com/impnot/notices/notice2004/a5834.htm>.² Effective August 23, 2004, the NSCC will modify order confirmation, correction and exchange confirmation record layouts in Fund/SERV in order to allow funds and firms to comply with the recommendation that all mutual fund confirmations display the sales load paid on each transaction (for all purchases and exchanges of front-end load funds) in percentage terms by November 1, 2004. As

detailed in the notice, the sales charge rate on confirmations should be expressed as a percentage of the public offering price. The SEC staff has directed that the sales charge rate displayed on the confirmation be the actual sales charge on the trade, which may differ slightly from the prospectus disclosed rate due to rounding that occurs in the calculations of public offering price and number of shares purchased. II. ICI RECOMMENDATION FOR VOLUNTARY INDUSTRY ACTION In accordance with the Task Force's recommendation that the securities industry implement each of its recommendations on a voluntary basis, the Institute urges mutual fund members that offer breakpoint discounts to review the NSCC Important Notice regarding changes to Fund/SERV order confirmations and implement the necessary changes in order to display the sales charge rate paid on each transaction confirmation by November 1, 2004. The Institute recommends that mutual funds voluntarily undertake this review and make any necessary revisions as soon as reasonably practicable. Kathleen C. Joaquin Director - Operations and Distribution

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