

**MEMO# 1633**

January 3, 1990

# **INSTITUTE COMMENTS ON NASD PROPOSAL TO REQUIRE DISCLOSURE OF DEFERRED SALES CHARGE ON CONFIRMATION STATEMENT**

January 3, 1990 TO: BOARD OF GOVERNORS NO. 2-90 SEC RULES MEMBERS NO. 1-90 RULE 12b-1 AD HOC COMMITTEE RE: INSTITUTE COMMENTS ON NASD PROPOSAL TO REQUIRE DISCLOSURE OF DEFERRED SALES CHARGE ON CONFIRMATION STATEMENT

As we previously informed you, the NASD has proposed an amendment to its Rules of Fair Practice to require disclosure on confirmation statements when an investment company imposes a deferred charge on redeemed shares. (See Memorandum to Board of Governors No. 72-89, SEC Rules Members No. 65-89 and Rule 12b-1 Ad Hoc Committee, dated December 5, 1989). Attached is a copy of the comment letter submitted by the Institute on the NASD proposal. The Institute believes that such disclosure would help alert investors to the existence of a contingent deferred sales charge and thereby supported adoption of the proposal. However, the Institute requested that the NASD clarify two items upon adopting the proposal. Specifically, clarification was requested on whether the disclosure would be required (1) in the instance of a small redemption fee that is intended to discourage frequent trading and, thus, is not intended to cover distribution expenses and (2) with respect to dividend reinvestment plans. In addition, the Institute commented that its support of this specific proposal was not to be interpreted as an endorsement of the practice of including on confirmation statements disclosure that is already found in the prospectus. We believe that such a practice could ultimately discourage investors from reading the prospectus. We will keep you advised of developments on this matter. Amy B. Rosenblum Assistant General Counsel Attachment