

**MEMO# 944**

January 26, 1989

# **SEC ADOPTS FEE TABLE FOR VARIABLE ANNUITIES; PROVIDES GUIDANCE FOR THE PREPARATION OF MUTUAL FUND FEE TABLES**

@ 1 @ January 26, 1989 TO: SEC RULES MEMBERS NO. 5-89 ACCOUNTING/TREASURERS COMMITTEE NO. 8-89 RE: SEC ADOPTS FEE TABLE FOR VARIABLE ANNUITIES; PROVIDES GUIDANCE FOR THE PREPARATION OF MUTUAL FUND FEE TABLES

As we previously informed you, the Securities and Exchange Commission proposed on July 15, 1988 to require a fee table in prospectuses of separate accounts that issue variable annuity contracts. (See Memorandum to SEC Rules Members No. 38-88 and Accounting/Treasurers Advisory Committee No. 38-88, dated July 22, 1988). As proposed the variable annuity fee table would have been accompanied not only by an example similar to the one that is required to accompany mutual fund fee tables, but also an example showing the amount of return necessary to preserve an investor's initial investment. Moreover, the Release also requested comment on whether Form N-1A should be revised to require mutual funds to add a similar example to their fee tables. On September 20, the Institute commented to the Commission that although the proposed example might have been preferable to the example previously adopted by the Commission for mutual funds, to add more information to the example already required would unnecessarily complicate the fee table. In the attached Release, the SEC has adopted a fee table requirement for variable annuity separate account prospectuses. However, we are pleased to inform you that the Release neither requires separate accounts, nor proposes to require mutual funds, to include an example showing the amount of return necessary to preserve an investor's initial investment. Rather the Release recognizes that such disclosure might be confusing to investors. The Release does state, however, that "the Commission, through the staff's review of post-effective amendments, will monitor the need for inclusion of such a line, and whether the line would provide useful additional information." Other items in the Release of particular importance for mutual funds and their sponsors are footnote 15, which indicates that the Commission and its staff would not object if mutual fund @ 2 @ fee tables include time periods greater than the ten year period required to be included in the table, and footnote 16, which indicates that the Commission is considering amending Form N-1A to require mutual funds to present contract fees as flat dollar amounts rather than as a percentage of average net assets. In addition, the Release contains amendments to Form N-1A that eliminate the fee table requirement for mutual funds that offer shares exclusively to separate accounts that fund (i) variable annuity contracts or (ii) variable annuity contracts or variable life insurance contracts (the fee table previously had not been required if a mutual fund offered its shares

exclusively to separate accounts that fund variable life insurance contracts). Mary K. Bellamy Associate General Counsel Attachment

---

Copyright © by the 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.