

MEMO# 1421

September 26, 1989

CALIFORNIA EXPENSE LIMITATION RULE AMENDED

September 26, 1989 TO: BOARD OF GOVERNORS NO. 58-89 STATE SECURITIES MEMBERS
NO. 31-89 RE: CALIFORNIA EXPENSE LIMITATION RULE AMENDED

The Institute has been working for several years to eliminate expense limitations in all states. In 1978, at the Institute's urging, the North American Securities Administrators Association (NASAA) and the Midwest Securities Commissioners Association adopted a resolution encouraging states to repeal their expense limitations. At that time, there were twenty-eight states with either formal or informal expense limitations in effect. In 1984, again at the Institute's urging, NASAA adopted a similar resolution recommending the states to suspend or repeal their expense limitations. In addition, the Institute has repeatedly petitioned the states to suspend or repeal their expense limitations. As a result of the Institute's efforts, no state, except California, continues to enforce a traditional expense limitation. The Institute has met with the California Department of Corporations many times to urge the Department to suspend or repeal their expense limitation. The Institute is pleased to announce that the Department has adopted amendments to the rule that substantially increases the amount of allowable expenses. Pursuant to the amended rule, the annual expense limitation percentage cap is increased to two and one-half percent of the first \$30 million of the average net assets of the fund, two percent of the next \$70 million and one and one-half percent of the remaining average net assets. In addition, the amended rule allows funds to exclude a portion of annual distribution plan expenses and custodian fees attributable to investments in foreign securities when calculating the expenses of the fund for purposes of the expense limitation rule. - 2 - The rule was also amended to require expense limitation reports from only those funds that have exceeded the new expense limitation and are required to reduce or rebate advisory or management fees or those funds that are relying on a waiver from the rule. Attached is a copy of the amended rule, which is effective September 21, 1989. Natalie Shirley Associate General Counsel Attachment