

MEMO# 9220

September 5, 1997

DRAFT COMMENT LETTER ON PROPOSED AMENDMENTS TO NASD SALES CHARGE RULES

* See Memorandum to SEC Rules Committee No. 76-97, dated August 6, 1997. [9220]
September 5, 1997 TO: SEC RULES COMMITTEE No. 85-97 RE: DRAFT COMMENT LETTER ON PROPOSED AMENDMENTS TO NASD SALES CHARGE RULES

_____ In a recent Notice to Members, NASD Regulation, Inc. solicited comments on proposed changes to its rules governing investment company sales charges.* As previously indicated, the amendments would: (1) impose maximum aggregate sales charge limits on funds of funds (including master-feeder funds); (2) permit installment loads; (3) prohibit loads on reinvested dividends; (4) reinstate a requirement specifying the order in which shares subject to a contingent deferred sales load ("CDSL") must be redeemed; and (5) eliminate a disclosure requirement regarding the effect of asset-based sales charges. A copy of the Institutes draft comment letter on the proposed amendments is attached for your review. Comments on the proposed amendments must be filed by September 29th. If you have comments on the attached draft letter, please contact me at (202) 326-5822 (or by e-mail to frances@ici.org) by Friday, September 19th. The draft letter recommends certain revisions to NASDRs proposal as it relates to funds of funds with asset-based sales charges. First, the letter suggests that NASDR clarify that the cumulative limits on asset-based sales charges (i.e., 7.25% or 6.25% times total new gross sales, plus interest) would continue to apply individually to acquiring and acquired funds in a fund of funds structure. This clarification would prevent possible undue discriminatory treatment among different investment company structures (e.g., master-feeder funds and multiple class funds). Second, the draft letter recommends that in the case of an affiliated fund of funds in which an acquired fund has an asset-based sales charge, the acquired fund should exclude sales made to the acquiring fund when calculating total new gross sales for purposes of applying the cumulative sales charge limits. The letter states that this approach would ensure that investors are not subjected inappropriately to sales charges at two levels. 2The draft letter supports the proposed revised definition of "deferred sales charge," which would be consistent with the definition of "deferred sales load" in Rule 6c-10 under the Investment Company Act of 1940. It also supports the proposed deletion of the current prospectus disclosure requirement regarding the long-term effects of Rule 12b-1 plans, in light of the pending proposed amendments to Form N-1A, which would require similar disclosure. The draft letter indicates that the Institute does not object to the proposal to prohibit front-end and deferred sales charges on reinvested dividends, nor to the proposed reinstatement of a requirement regarding the order in which funds with CDSL must redeem shares. The draft

letter also recommends several technical changes to the proposed amendments. Frances M. Stadler Associate Counsel Attachment (in .pdf format)

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