

MEMO# 3428

January 13, 1992

NASAA UPDATE

January 13, 1992 TO: BOARD OF GOVERNORS NO. 3-92 STATE SECURITIES MEMBERS NO. 3-92 CONTRACTUAL PLANS COMMITTEE NO. 1-92 RE: NASAA UPDATE

In the past month, we have notified you twice about recent actions taken by the North American Securities Administrators Association, Inc. ("NASAA") which are sources of serious concern to the investment company industry. (See Memoranda to Board of Governors Nos. 82-91 and 87-91, State Securities Members Nos. 49- 91 and 53-91 and Contractual Plans Committee Nos. 18-91 and 19- 91, dated October 29, 1991 and December 10, 1991.) We would like to update you regarding several favorable developments flowing from discussions by the Institute with NASAA in the past month. The first memorandum reported passage of a resolution in opposition to the blue chip exemption from registration for qualified mutual funds and unit trusts by members of NASAA. As well as opposing adoption of the blue chip exemption by additional states, the resolution also encouraged the states that have adopted it to re-examine the need for the exemption. The Institute contacted the President of NASAA to express its concern not only with the rationale to justify the exemption but also the manner with which the resolution was introduced and passed by NASAA. The Institute also met with the President of NASAA to discuss the resolution, the Institute's current efforts in obtaining the blue chip exemption in additional states and other topics involving state regulation of the investment company industry. Most significantly, the Institute has also contacted and/or met with several of the states that have adopted the blue chip exemption. We are pleased to report that, at the present time, none of the states that have adopted the exemption plan to amend it as a result of the NASAA resolution. The second action taken by NASAA was publication of an Investor Alert on mutual funds. While the Alert included useful information on investing in mutual funds, it also contained numerous misleading statements with respect to mutual funds. The Institute immediately contacted the Executive Director of NASAA to object to the Alert's misleading characterization of the fund industry and was subsequently informed that NASAA would inform its members to stop circulation of the Alert. In addition, the Institute submitted a letter to the President of NASAA strongly objecting to the overall tone and several of the specific allegations contained in the Alert. In a response letter dated December 12, 1991, the President of NASAA informed the Institute that he had instructed the NASAA Corporate Office to distribute the Institute's letter to all NASAA administrators ("NASAA letter"). According to the NASAA letter, the Alert was not intended to cast "unfounded aspersions on investment companies as a group." Rather, it was intended to provide general information on mutual funds. However, in retrospect, NASAA acknowledged it may have been appropriate to consult with the Institute on the Alert prior to its publication. (A copy of the NASAA letter is attached.) The Institute will be working with NASAA and the appropriate NASAA Committee to amend the Investor Alert for future publication. In addition to meeting with NASAA on

these two particular issues, both the Institute and NASAA have agreed to increase communications in order to prevent any future unexpected initiatives. The President of NASAA has designated Steve Diamond, the Securities Commissioner from Maine and member of the NASAA Board of Directors, to act as special state liaison to specifically work with the Institute and its members on investment company issues. The Institute has also scheduled additional meetings with the appropriate NASAA representatives to discuss other topics of mutual interest, i.e., adoption by NASAA members of the 1984-85 NASAA investment company resolutions, uniformity of state registration and renewal procedures and development of the one-stop electronic filing system. If you have any questions or comments regarding the above, please feel free to contact me at (202) 955-3517 or Lawrence Rogers at (202) 955-8431. We will keep you advised of developments. Patricia Louie Assistant General Counsel Attachment

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