

MEMO# 5485

January 12, 1994

UPDATE ON NASAA SALES PRACTICES COMMITTEE'S PROJECTS

January 12, 1994 TO: SEC RULES COMMITTEE NO. 5-94 STATE LIAISON COMMITTEE NO. 5-94 SUBCOMMITTEE ON ADVERTISING NO. 1-94 UNIT INVESTMENT TRUST COMMITTEE NO. 3-94 RE: UPDATE ON NASAA SALES PRACTICES COMMITTEE'S PROJECTS

As you may recall, the North American Securities Administrators Association ("NASAA") formed a new committee in 1992 to study various issues relating to the sale of investment company securities. (See Memorandum to SEC Rules Committee No. 94-92, State Liaison Committee No. 45-92, Unit Investment Trust Committee No. 71-92 and Subcommittee on Advertising No. 16-92, dated December 22, 1992.) The Chair of the Investment Company Sales Practices Committee recently provided the Institute with the following list of the Committee's projects for this year: 1. identify specific problems and develop recommended solutions concerning current state and federal regulation regarding sales practices of investment companies, including preventing unsuitable sales, curbing manipulative practices and deceptive sales techniques and prevent sales by untrained personnel. Assess whether special problems exist when sales are made through affiliated broker-dealers or through agents who primarily operate as insurance professionals in non-branch settings; 2. monitor complaints regarding investment companies which are filed with the states, SEC or NASD for purposes of identifying areas of concern which may require regulatory action; 3. identify specific problems and develop recommended solutions concerning current state and federal regulation of advertising practices of investment companies including the use of rankings in mutual fund sales literature; 4. evaluate current disclosure requirements for sales incentives for mutual funds. Determine whether current disclosure guidelines are sufficient and, if not, determine whether further regulatory action is justified; 5. evaluate whether suitability requirements are necessary for certain types of mutual funds, such as junk bond mutual funds; 6. establish a working relationship with the NASD for the purpose of periodically assessing the efficacy of the Series 6 examination to ensure that the exam reflects current regulatory developments and industry practices; 7. consider the desirability of requiring that front-end sales loads be disclosed on mutual fund confirmations; and 8. consider the desirability of requiring that periodic account statements disclose the current value of mutual fund shares held in the account and any rule 12b-1 fees charged during the period covered by the statement. The following individuals have been appointed to serve on the Committee: Richard S. Cortese, Chair (Vermont); William Mohr, Vice-Chair (New York); J.B. Cassidy (Colorado); Linda M. Cohen (Rhode Island) and Don Raschke (Texas). The Institute has provided the Committee with information relating to certain of the above projects and will meet with the Committee later this month to further discuss these issues. We will keep you advised of developments. Patricia Louie Associate Counsel

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