

MEMO# 7373

October 26, 1995

NASD SPECIAL NOTICE TO MEMBERS CONCERNING MUTUAL FUND SALES PRACTICES

October 26, 1995 TO: MARKETING POLICY COMMITTEE No. 54-95 SALES FORCE MARKETING COMMITTEE No. 52-95 SHAREHOLDER COMMUNICATIONS COMMITTEE No. 41-95 RE: NASD SPECIAL NOTICE TO MEMBERS CONCERNING MUTUAL FUND SALES PRACTICES

The National Association of Securities Dealers, Inc. recently issued a Special Notice to Members that further explains NASD members obligations and responsibilities regarding mutual fund sales practices. The Special Notice states that it is intended to address the proliferation of new mutual funds and varied fee structures that have significantly increased investors investment options and the complexity of their selection process. According to the NASD, members must ensure that: complete and balanced disclosure is made to investors regarding the distinctions among classes of a multi-class fund or feeders of a master-feeder fund; if an expense ratio is represented as an advantage of a particular fund, it is explained in the context of and compared with other mutual fund expense ratios; investors receive appropriate information concerning a funds investment objective, portfolio techniques and policies, and risk characteristics; when performance information is presented, the concepts of total return, yield, and distribution rates are explained to and understood by the investor; any recommendation made is suitable and based on the investors investment objectives; any recommendation that a customer switch mutual funds is made with the investors best interest in mind, rather than based on incentives received by the associated person; materials designed for internal or "dealer only" use are not distributed in any manner to the public, orally or in writing; and electronic communications are treated the same as any other advertising and/or sales literature, and are supervised and used only under the same parameters. Finally, the NASD states that members who fail to carry out these obligations and responsibilities, or who do not communicate information concerning mutual funds accurately and completely, may be subject to NASD disciplinary action. Paul Schott Stevens General Counsel Attachment