

MEMO# 5436

December 30, 1993

SEC SEEKS COMMENT ON EXEMPTION FOR MONEY MARKET FUNDS FROM DISCLOSURE REQUIREMENT UNDER ASSET - BASED SALES CHARGE RULE

December 30, 1993 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 11-93 SEC RULES COMMITTEE NO. 116-93 AD HOC COMMITTEE ON 12b-1 ISSUES RE: SEC SEEKS COMMENT ON EXEMPTION FOR MONEY MARKET FUNDS FROM DISCLOSURE REQUIREMENT UNDER ASSET - BASED SALES CHARGE RULE

The Securities and Exchange Commission has published for public comment a proposal by the NASD to exempt certain money market mutual funds that have an asset-based sales charge from the requirement to disclose that "long-term shareholders may pay more than the economic equivalent of the maximum front-end sales charge permitted by [the rules]." The proposed amendment to Section 26(d)(4) of the NASD Rules of Fair Practice was approved by NASD members in September 1993. (See Memorandum to Money Market Funds Ad Hoc Committee No. 9-93, SEC Rules Members No. 64-93 and Ad Hoc Committee on 12b-1 Issues, dated August 19, 1993.) A copy of the SEC release seeking comments on the proposed amendment is attached. As indicated in the attached release, the proposal has been revised, pursuant to SEC staff comments, to limit the exemption to money market funds that have an asset-based sales charge of .25% of average annual net assets or less. As we previously informed you, the NASD proposed the amendment in response to several requests for exemption from the disclosure requirement that were based on the premise that it would not be true for certain funds. For example, applicants for exemption pointed out that money market funds typically have very low asset-based sales charges and an investor would have to be a shareholder for an extremely long time for the disclosure to be true. They expressed concern that because money market funds are usually short-term investment vehicles, the disclosure might be misleading, or at least confusing, to shareholders in those funds. The NASD agreed. Comments on the proposed amendment must be filed with the SEC by January 12, 1994. If there are any issues you would like the Institute to consider addressing in a comment letter to the SEC, please contact me at (202) 326-5822 by Monday, January 10. Frances M. Stadler Associate Counsel Attachment