

**MEMO# 5668**

March 11, 1994

## **SEC APPROVES EXEMPTION FROM DISCLOSURE REQUIREMENT UNDER NASD ASSET-BASED SALES CHARGE RULE FOR MONEY MARKET FUNDS**

March 11, 1994 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 7-94 SEC RULES MEMBERS NO. 12-94 12b-1 AD HOC COMMITTEE RE: SEC APPROVES EXEMPTION FROM DISCLOSURE REQUIREMENT UNDER NASD ASSET-BASED SALES CHARGE RULE FOR MONEY MARKET FUNDS \_\_\_\_\_ The Securities and Exchange Commission recently approved a proposal by the NASD to amend Article III, Section 26(d)(4) of its Rules of Fair Practice to exempt certain money market funds from the requirement to disclose that long-term shareholders may pay more than the maximum front-end sales charges permitted under those rules. (See Memorandum to SEC Rules Members No. 103-93, dated December 30, 1993 and Memorandum to Money Market Funds Ad Hoc Committee No. 11-93 and Ad Hoc Committee on 12b-1 Issues, dated December 30, 1993.) Pursuant to this amendment, the disclosure requirement set forth in Section 26(d)(4) will not apply to any money market fund that has an asset-based sales charge of .25% or less. A copy of the SEC's release is attached. As we previously reported, the NASD proposed the rule change on the basis that the required disclosure could be misleading or confusing to investors in money market funds because such funds typically have low asset-based sales charges and are used as short-term investments. The Institute had filed a comment letter with the SEC noting that the required disclosure also could be misleading or confusing in certain cases involving non-money market funds. The Institute's letter thus suggested that funds be given more flexibility to determine for themselves whether the disclosure is appropriate, based upon their particular characteristics. The attached release indicates that the NASD determined not to incorporate any changes suggested by commenters. It reiterates the NASD's reasons for crafting the exemption for money market funds only. The release also notes the SEC's conclusion that "[w]ith respect to money market funds, the disclosure is unnecessary, potentially misleading and serves no regulatory or investor protection interest." Frances M. Stadler Associate Counsel Attachment