

MEMO# 18531

February 10, 2005

INSTITUTE URGES VOLUNTARY IMPLEMENTATION OF CENTRAL BREAKPOINT SCHEDULE AND LINKAGE DATABASE - CONFERENCE CALL SCHEDULED FEBRUARY 25, 2005

[18531] February 10, 2005 TO: BANK AND TRUST ADVISORY COMMITTEE No. 2-05
BROKER/DEALER ADVISORY COMMITTEE No. 3-05 OPERATIONS COMMITTEE No. 1-05
TRANSFER AGENT ADVISORY COMMITTEE No. 3-05 SMALL FUNDS COMMITTEE No. 3-05 RE:
INSTITUTE URGES VOLUNTARY IMPLEMENTATION OF CENTRAL BREAKPOINT SCHEDULE AND
LINKAGE DATABASE - CONFERENCE CALL SCHEDULED FEBRUARY 25, 2005 As previously
reported to you, in July 2003, the Joint NASD/Industry Task Force on Breakpoints ("Task
Force") issued a Report, setting forth thirteen recommendations to address errors and
failures in providing breakpoint discounts to investors in connection with the purchase of
mutual fund shares that carry a front-end sales load.¹ Subsequent to the issuance of the
Report, working groups of ICI and SIA members and the NSCC were formed to further define
and voluntarily implement the Report's recommendations.² Although many of the Task
Force's thirteen recommendations have been fully implemented by the financial industry,
the recommendation that mutual funds populate a Central Breakpoint Schedule and
Linkage Database is still largely incomplete. More specifically, the Task Force
recommended that, "The mutual fund industry should create a central, comprehensive
database of pricing methods (e.g., NAV, POP, or historical costs), breakpoint schedules, and
the linkage rules used to determine when a breakpoint has been reached and should make
that database easily accessible to broker/dealers' registered representatives, preferably by
providing electronic access to the database from the desktops of registered
representatives. Such a database would provide registered representatives with easy
access to information about breakpoint opportunities at the point of sale." The Report also
stated that a centralized database already exists, through the NSCC, which operates the
Mutual Fund Profile Service ("MFPS"), an electronic database that contains information
about mutual 1 See Institute Memorandum No. 16347 (July 24, 2003). A full copy of the
report can be found on the NASD website at
http://www.nasd.com/web/groups/rules_regs/documents/rules_regs/nasdw_006434.pdf. 2
The NASD published a status report last year on progress made towards implementing the
Task Force's recommendations. See Institute Memorandum No. 17353 (April 5, 2004). The
status report is available on the NASD website at
[http://www.nasd.com/web/idcplg?IdcService=SS_GET_PAGE&ssDocName=NASDW_010387
&ssSourceNodeid=648](http://www.nasd.com/web/idcplg?IdcService=SS_GET_PAGE&ssDocName=NASDW_010387&ssSourceNodeid=648) 2 funds. The Task Force recommended that the MFPS database

should be expanded to include breakpoint aggregation terms and rules for all fund families. In accordance with the Task Force recommendation, the NSCC implemented changes to MFPS to accommodate breakpoint linkage information for funds in May 2004.³ However, we understand that most eligible mutual funds have not populated MFPS with their breakpoint schedule and linkage rules, and that the majority of other fund information MFPS is intended to contain remains lacking.⁴ Dealer firms are now requesting that fund companies update MFPS with their breakpoint data and other fund information by March 31, 2005. This is a task that many fund companies find challenging due to (1) the complexities involved in populating data in MFPS, (2) the availability and accessibility of the information needed, and (3) the redundancies that exist in providing information on MFPS that is already provided to broker/dealers in other forms. In order for the MFPS database to be effective, it must be comprehensive. Thus, in accordance with the Task Force's recommendation that the securities industry implement each of its recommendations on a voluntary basis, the Institute urges mutual fund members to fully and accurately populate the MFPS database as soon as reasonably practicable, and to update the database as needed on a timely basis. To assist in this effort, at the request of the ICI Broker/Dealer Advisory Committee, the Institute will be holding a series of member conference calls to discuss implementation issues and concerns, share "best practices" and monitor the industry's progress toward completing the recommendation. We invite you or your designated representative to participate in the first conference call, which will be held on Friday, February 25, 2005, from 11:00 am to 12:00 pm EST. The dial-in number for the call is 888-704-0559 and the pass code is 23612. For security reasons, the pass code and the call leader's name (Kathy Joaquin) will be required to join the call. Questions regarding this initiative may be directed to either Kathy Joaquin at the ICI at 202-326-5930 or to Nino Palermo, Chair of the ICI Broker/Dealer Advisory Committee, at 913- 681-5432. Nino Palermo Kathleen C. Joaquin Vice President Director – Operations & Distribution American Funds Service Company Chairman – Broker/Dealer Advisory Committee Attachment (in .pdf format) 3 See NSCC Important Notices # A5765 (February 12, 2004) and # A5825 (May 21, 2004) at <http://www.nsc.com/impnot/index2004.html>. 4 See Attachment A for a detailed listing and description of the relevant MFPS records.