

MEMO# 9280

September 26, 1997

DRAFT COMMENT LETTER ON NASD REGULATION OF CASH COMPENSATION

* See Memorandum to Closed-End Investment Company Committee No. 29-97 and Unit Investment Trust Committee No. 52-97, dated August 15, 1997; Memorandum to SEC Rules Members No. 60-97, dated August 15, 1997. [9280] September 26, 1997 TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 34-97 SEC RULES COMMITTEE No. 92-97 UNIT INVESTMENT TRUST COMMITTEE No. 58-97 RE: DRAFT COMMENT LETTER ON NASD REGULATION OF CASH COMPENSATION

As we previously advised you, NASD Regulation, Inc. recently solicited comments on how it should regulate the payment and receipt of cash compensation incentives for the sale and distribution of investment company securities.* Attached for your review is a draft comment letter setting forth the Institutes response. The draft letter recommends that NASDR continue to regulate cash compensation paid to broker-dealer firms (as opposed to payments to individual registered representatives) through written disclosure requirements. It suggests that existing requirements be enhanced in certain respects to provide more effective disclosure to investors. More specifically, the letter states that: (1) fund prospectuses should be required to include general disclosure about cash compensation arrangements; and (2) broker-dealers should be required to provide general written disclosure about cash compensation arrangements to investors before they purchase fund shares (e.g., in account application forms). The draft letter states that these disclosures should be required whenever the broker-dealer firm may receive compensation from the fund (e.g., through 12b-1 fees), its adviser, underwriter, administrator or their affiliate. It also recommends that payments to broker-dealers for administrative services be covered. Comments must be filed with NASDR by October 15th. If you have comments on the attached draft letter, please call me at (202) 326-5822 by Tuesday, October 7th. Frances M. Stadler Associate Counsel Attachment (in .pdf format)