

MEMO# 3709

April 16, 1992

INSTITUTE SUBMITS FOLLOW-UP COMMENTS TO NASAA COMMITTEE ON "HUB AND SPOKE" DISCLOSURE

April 16, 1992 TO: SEC RULES COMMITTEE NO. 20-92 STATE LIAISON COMMITTEE NO. 15-92
RE: INSTITUTE SUBMITS FOLLOW-UP COMMENTS TO NASAA COMMITTEE ON "HUB AND
SPOKE" DISCLOSURE _____ As you

know, the Institute submitted comments to the NASAA Investment Company Registration/Trading Practices Committee on its cover page and prospectus disclosure for "hub and spoke" funds. (See Memoranda to SEC Rules Committee Nos. 8-92 and 9-92 and State Liaison Committee Nos. 4-92 and 6-92, dated February 18, 1992 and March 4, 1992). The Institute met with the Chair and Vice-Chair of the NASAA Committee to discuss industry's concerns with the NASAA Committee disclosure. Based upon the discussion at this meeting, it appears that the NASAA disclosure will be revised in several respects. Specifically, it is our understanding that separate line item disclosure for fees and expenses will no longer be required. Instead, the spoke fund prospectus should include a narrative discussion of the breakdown of fees and expenses for both the hub and spoke. Such modification would cure the current inconsistency between the special state disclosure requirement and the fee table disclosure required by the SEC. In addition, the NASAA Committee disclosure regarding rates of return, redemption, voting control and shareholder rights may also be modified. The Institute submitted a follow-up comment letter to the Chair of the NASAA Committee confirming our understanding of the meeting. The comment letter also included additional information requested by the NASAA Committee regarding fee table requirements for variable annuity separate accounts and the ability of an investor to invest in more than one spoke fund for the same hub portfolio. The comment letter also objected to the NASAA Committee's requirement that the special state disclosure be included in the body of the prospectus since the effect of such would be to allow a single state to impose its disclosure requirements on offers and sales of securities outside its jurisdiction. A copy of the Institute's comment letter is attached. The NASAA Committee will be meeting later this month to discuss the "hub and spoke" disclosure. We will keep you advised of developments. Patricia Louie Assistant General Counsel Attachment