

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

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