

**MEMO# 6296**

October 11, 1994

# **INSTITUTE LETTER CONCERNING SUITABILITY REQUIREMENTS FOR MULTIPLE CLASS AND MASTER-FEEDER FUNDS**

October 11, 1994 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 50-94 OPERATIONS COMMITTEE NO. 29-94 SEC RULES COMMITTEE NO. 108-94 RE: INSTITUTE LETTER CONCERNING SUITABILITY REQUIREMENTS FOR MULTIPLE CLASS AND MASTER-FEEDER FUNDS \_\_\_\_\_ As we previously reported, the Institute submitted a comment letter concerning a proposal of the Securities and Exchange Commission that would, among other things, subject multiple class and master-feeder funds to certain cross-disclosure requirements. (See Memorandum to Accounting/Treasurers Committee No. 8-94, Operations Committee No. 5-94, and SEC Rules Committee No. 22-94, dated February 28, 1994.) At a subsequent meeting with the SEC's Division of Investment Management (at which the Institute's staff reiterated our concerns with the cross-disclosure proposal), the Division requested that the Institute submit a memorandum analyzing the suitability requirements imposed on broker-dealers who offer multiple class and master-feeder funds. The Institute recently submitted the attached letter and memorandum to the Division. The purpose of the memorandum was to determine the extent to which existing suitability obligations provide substantive protections to investors in multiple class and master-feeder funds. The memorandum analyzed the scope of the suitability obligations and concluded that the suitability doctrine provides effective protection for investors that makes unnecessary the extensive prospectus cross-disclosure proposed by the Commission. The memorandum also concluded that broker-dealers are not required to recommend the most suitable investment and that they need not recommend a class, feeder fund, or other security that the broker-dealer does not offer. Without these limitations, the suitability doctrine would interfere with the brokerage relationship, by essentially requiring the broker-dealer to offer all classes or feeder funds to its customers. The Institute's letter stated that, for similar reasons, the Institute opposes the Commission's proposed cross-disclosure requirement, which would force issuers and selling brokers to offer classes or feeder funds that are not intended as alternative investments. Thomas M. Selman Associate Counsel Attachment