

MEMO# 18287

December 2, 2004

NEW VOLUNTARY CONFIRMATION DISCLOSURES REGARDING SALES LOADS

[18287] December 2, 2004 TO: BOARD OF GOVERNORS No. 82-04 CEOS BROKER/DEALER ADVISORY COMMITTEE No. 30-04 OPERATIONS COMMITTEE No. 22-04 SEC RULES COMMITTEE No. 95-04 SMALL FUNDS COMMITTEE No. 51-04 TRANSFER AGENT ADVISORY COMMITTEE No. 81-04 CHIEF COMPLIANCE OFFICER COMMITTEE No. 32-04 PRIMARY CONTACTS - MEMBER COMPLEX No. 101-04 RE: NEW VOLUNTARY CONFIRMATION DISCLOSURES REGARDING SALES LOADS This memorandum is intended to update you on the implementation of new confirmation disclosures relating to front-end sales loads that were recommended by the Joint NASD/Industry Task Force on Breakpoints.¹ A voluntary implementation date of November 1, 2004 was recommended by an industry working group that was charged by the Task Force with implementing its recommendations. The industry working group, in consultation with the SEC, has recommended that mutual fund confirmations disclose the actual sales charge rate paid by an investor as a percentage of public offering price.² As discussed in an SEC release earlier this year, the sales charge rate paid by an investor may differ from the rate disclosed in the prospectus due to the rounding that occurs in the calculation used to compute an investor's actual sales load.³ Because of this potential difference, the working group has recommended that the confirmation include a legend S The Task Force's report and an update on the implementation of these recommendations are available at:

nasd.com/stellent/groups/rules_regs/documents/rules_regs/nasdw_006434.pdf and nasd.com/stellent/idcplg?IdcService=SS_GET_PAGE&ssDocName=NASDW_011237&ssSourceNodeid=648, respectively. 2 To facilitate the implementation of this recommendation, the NSCC recently enhanced their mutual fund trade confirmation records to enable fund companies to supply sales charge rate information through the NSCC to intermediaries to display on investor confirms. See

<http://www.nsc.com/impnot/notices/notice2004/a5834.htm>. 3 SEC Release Nos. 34-49148 and IC-26341 (Jan. 29, 2004) (proposing mutual fund confirmation and point-of-sale disclosure requirements). A copy of the release is available at:

sec.gov/rules/proposed/33-8358.pdf. 2 that alerts investors to the fact that the sales charge they paid may be different from the stated sales charge in the prospectus.⁴ The Institute understands that most members are already taking the steps necessary to implement the working group's recommendations. These steps may include, among other things, internal system enhancements, confirmation statement redesign, updating prospectus disclosure, dealer and service representative training, and investor education. The Institute urges those members that have not begun or completed this process to voluntarily implement these recommendations as soon as reasonably practicable. For more information, contact Don Boteler of the Institute's staff at 202-326-5845 or at boteler@ici.org. Elizabeth Krentzman General Counsel 4 Consistent with the Task Force's recommendation, the

legend developed by the working group also alerts investors to the availability of breakpoint discounts. In particular, it reads as follows: “You may be eligible for breakpoint discounts based on the size of your purchase, current holdings or future purchases. The sales charge you paid may differ slightly from the Prospectus disclosed rate due to rounding calculations. Please refer to the Prospectus, Statement of Additional Information, or contact your financial advisor for further information.”

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