

MEMO# 9350

October 20, 1997

ICI COMMENT LETTER ON NASD REGULATION OF CASH COMPENSATION ARRANGEMENTS

* See Memorandum to Closed-End Investment Company Committee No. 34-97, SEC Rules Committee No. 92-97 and Unit Investment Trust Committee No. 58-97, dated September 26, 1997. [9350] October 20, 1997 TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 38-97 SEC RULES COMMITTEE No. 102-97 UNIT INVESTMENT TRUST COMMITTEE No. 61-97 RE: ICI COMMENT LETTER ON NASD REGULATION OF CASH COMPENSATION ARRANGEMENTS

_____. Attached is a copy of the Institutes comment letter to NASD Regulation, Inc. on regulation of incentive-based cash compensation paid in connection with sales of mutual fund shares. The letter is substantially similar to the draft that we recently circulated to you.* It has been revised in certain minor respects to incorporate members comments. The letter states that NASDR should continue to regulate cash compensation paid to broker-dealer firms (as opposed to payments to individual registered representatives) through written disclosure requirements. More specifically, it suggests that: (1) fund prospectuses should be required to include general disclosure about cash compensation arrangements; and (2) broker-dealer firms should be required to provide general written disclosure about cash compensation arrangements to investors before or when they purchase fund shares. The letter states that these disclosures should be required whenever a broker-dealer firm that sells a funds shares may receive compensation from the fund (e.g., through 12b-1 fees), its adviser, underwriter, administrator or their affiliates. It also recommends that payments to such broker- dealers for administrative services be covered. Frances M. Stadler Associate Counsel Attachment (in .pdf format)