

**MEMO# 2721**

April 25, 1991

## **SEC APPROVES NASD PROPOSAL TO REQUIRE DISCLOSURE OF DEFERRED SALES CHARGE ON CONFIRMATION STATEMENT**

April 25, 1991 TO: BOARD OF GOVERNORS NO. 27-91 SEC RULES MEMBERS NO. 27-91 SMALL FUNDS MEMBERS NO. 7-91 RULE 12b-1 AD HOC COMMITTEE RE: SEC APPROVES NASD PROPOSAL TO REQUIRE DISCLOSURE OF DEFERRED SALES CHARGE ON CONFIRMATION STATEMENT \_\_\_\_\_ The SEC recently approved the NASD's proposal to amend its Rules of Fair Practice to require disclosure on the front of the confirmation sent to a shareholder when an investment company imposes a deferred sales charge on redeemed shares. (See Memorandum to Board of Governors No. 72-89, SEC Rules Members No. 65-89 and Rule 12b-1 Ad Hoc Committee, dated December 5, 1989). Under the new rule, confirmations must include the following sentence: "On selling your shares, you may pay a sales charge. For the charge and other fees, see the prospectus." This new requirement will become effective October 1, 1991. The Institute supported the NASD proposal as it would provide a constructive step toward ensuring that investors are fully aware of the existence of a deferred sales charge. In its comment letter, the Institute requested clarification as to the applicability of the disclosure requirement (1) where a small redemption fee is imposed to discourage frequent trading and (2) with respect to dividend reinvestment plans. In response, the NASD stated that its proposal on 12b-1 fees (SR-NASD-90-69) defines "sales charge" in a manner that does not include such redemption fees. The NASD stated that the new rule would not apply to dividend reinvestment plans "because there would be no confirmation on which the required disclosure could be made." However, if a fund elects to send out confirmations for shares purchased through such plans, the disclosure must be included. The NASD responded that "any confirmation sent by an NASD member to its customer, regardless of whether it is required to be sent, must comply with all applicable requirements." Attached is a copy of the SEC release approving the new rule. Amy B.R. Lancellotta Assistant General Counsel Attachment

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