

MEMO# 8413

November 25, 1996

INSTITUTE COMMENT LETTER ON PROPOSED AMENDMENTS TO RULE 18F-3 AND RULE 12B-1

1 See Memorandum to Accounting/Treasurers Committee No. 36-96 and SEC Rules Committee No. 100-96, dated September 13, 1996. November 25, 1996 TO: ACCOUNTING/TREASURERS COMMITTEE No. 46-96 SEC RULES COMMITTEE No. 123-96 RE: INSTITUTE COMMENT LETTER ON PROPOSED AMENDMENTS TO RULE 18f-3 AND RULE 12b-1

As we previously informed you, the Securities and Exchange Commission has proposed to amend Rule 18f-3 to expand and clarify the methods a fund may use to allocate income, gains and losses, and fundwide expenses among its classes.¹ The proposed amendments also would clarify the voting rights of "purchase" class shareholders regarding any proposed "target" class fee increase. In addition, a proposed amendment to Rule 12b-1 would clarify that a series funds Rule 12b-1 plan must be severable for each series and that whenever an action is required with respect to the plan, that action must be taken separately for each series. The Institute recently submitted the attached comment letter to the SEC. The Institutes comment letter supports the proposed amendments to the accounting allocation methods currently available to daily dividend multiple class funds. The comment letter also supports recognition of the simultaneous equations method as an alternative allocation method under the rule. The Institutes letter expresses concern with the ability of multiple class funds to utilize other accounting allocation methods not contained in the rule. The Institutes letter supports the proposed amendment to make it clear that purchase class shareholders have voting rights (or the right to a new target class) only with respect to those expense increases that are submitted separately for approval by target class shareholders. Finally, the comment letter expresses support for the proposed modification to Rule 12b-1 to clarify that if a distribution plan covers more than one series of shares, the provisions of the plan must be severable for each series. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment