

MEMO# 4104

September 18, 1992

NASAA ADOPTS TWO-TIER FUND DISCLOSURE GUIDELINES

September 18, 1992 TO: BOARD OF GOVERNORS NO. 68-92 SEC RULES MEMBERS NO. 38-92 STATE SECURITIES MEMBERS NO. 38-92 INSTITUTIONAL FUNDS COMMITTEE NO. 19-92 RE: NASAA ADOPTS TWO-TIER FUND DISCLOSURE GUIDELINES

The Institute is pleased to advise you that NASAA adopted "Guidelines for Registration of Master Fund/Feeder Funds" (e.g., "hub and spoke" funds) on September 15, 1992 during the NASAA Fall Conference. The final guidelines adopted by NASAA incorporate several of the Institute's recommendations with respect to the appropriate level of disclosure that should be included in a first-tier fund prospectus. A copy of the final guidelines (subject to proofing by NASAA) is attached. As you may be aware, in February of this year, the NASAA Investment Company Registration/Trading Practices Committee ("NASAA Committee") issued specific cover page and prospectus disclosure language for states to use in reviewing applications for two-tier funds ("initial disclosure guidelines"). In certain instances, this disclosure differed from that required on the federal level (i.e., risk factors and fee table disclosure). In order to resolve the inconsistencies in the disclosure required by the states and the SEC, the NASAA Committee has been working closely with the SEC and the Institute to review the disclosure requirements for two-tier funds. In June, the NASAA Committee issued "Proposed Guidelines for the Registration of Master Fund/Feeder Funds" ("proposed guidelines") which substantially revised the initial disclosure guidelines and addressed several of the concerns expressed by the Institute and the SEC with respect to the initial disclosure guidelines. The final guidelines require narrative disclosure following the fee table which summarize the expenses of the Portfolio and first-tier fund rather than a separate fee table for both tiers as originally proposed in the initial disclosure guidelines. In addition, the final guidelines also identify specific areas unique to the two-tier fund structure which may require additional disclosure rather than requiring specific language to be included in the first-tier fund's prospectus. The final guidelines also require an existing traditional mutual fund to obtain shareholder approval prior to converting to the two-tier fund structure. This requirement differs from the original proposal which would have required a fund to obtain shareholder approval to convert to a two-tier structure and shareholder approval reauthorizing the conversion to the two-tier structure either immediately prior to actual conversion or at the next regularly scheduled shareholders meeting after conversion to the two-tier structure. Finally, the final guidelines require that the disinterested directors/trustees of both tiers may not be the same unless a majority of the disinterested members of the board have adopted written procedures to deal with potential conflicts of interest. The original proposal called for separate boards of directors/trustees for both the Portfolio and first-tier fund. The effective date of the final guidelines is November 15, 1992 (sixty days after the date upon which the vote for adoption occurred). However, some states may exercise their discretion

and adopt or apply portions of the final guidelines before the effective date. We will keep you informed of developments. Patricia Louie Assistant Counsel Attachment

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