

MEMO# 4393

January 7, 1993

MARYLAND ISSUES NO-ACTION LETTER ON SMALL ACCOUNT REDEMPTION DISCLOSURE

January 7, 1993 TO: STATE SECURITIES MEMBERS NO. 1-93 OPERATIONS MEMBERS NO. 1-93 TRANSFER AGENT ADVISORY COMMITTEE NO. 1-93 RE: MARYLAND ISSUES NO-ACTION LETTER ON SMALL ACCOUNT REDEMPTION DISCLOSURE

As we previously advised you, the Institute submitted a letter to the Maryland Division of Securities requesting that the Division take no enforcement action against a mutual fund, organized in Maryland, if the fund automatically redeems small accounts as expressly provided for in the charter of the fund, and in accordance with the description of its ability to automatically redeem small accounts as set forth in its prospectus or statement of additional information. This request was necessitated since the requirements of a recently enacted statutory provision for redemption of small accounts are generally inconsistent with the procedures adopted by most mutual funds. (See Memorandum to State Securities Members No. 46-92, Operations Members No. 51-92 and Transfer Agent Advisory Committee No. 75-92, dated December 17, 1992.) The Institute has been advised by the Maryland Securities Commissioner that the Securities Division will "take no action to require affected mutual funds to amend disclosure concerning automatic redemption programs as a result of the enactment of Section 2-310.1." A copy of the letter to the Institute from the Maryland Securities Commissioner is attached. However, please be aware that while the Securities Division has taken a no-action position with respect to the disclosure contained in the fund's prospectus regarding its small account redemption procedure, similar no-action assurance was not given in the event the fund actually redeems small accounts. This position is not unusual since the disclosure contained in a fund prospectus is directly within the jurisdiction of the Securities Division and it would be unlikely that the Securities Division could have taken a position with respect to a provision contained in the Maryland corporate code. The Institute will be sponsoring legislation during the 1993 Maryland legislative session to clarify that the procedure set forth in Section 2-310.1 applies only to mutual funds whose charters are silent as to the fund's ability to redeem small accounts. We will keep you advised of developments. Patricia Louie Associate Counsel Attachment