

MEMO# 1220

June 14, 1989

TESTIMONY IN CALIFORNIA CONCERNING CDSLs

June 14, 1989 TO: BOARD OF GOVERNORS NO. 36-89 STATE SECURITIES MEMBERS NO. 22-89 SEC RULES COMMITTEE NO. 27-89 AD HOC RULE 12b-1 COMMITTEE RE: TESTIMONY IN CALIFORNIA CONCERNING CDSLs

_____ The Institute was recently invited to testify before the California Senate Commission on Corporate Governance regarding Contingent Deferred Sales Loads (CDSLs). The Commission, which is authorized by the California Senate for the purpose of reviewing issues relating to business and securities and making recommendations to the Senate regarding such issues, is composed of California legislators, regulators, including the Commissioner of Corporations, academicians and business leaders. It is our understanding that a Commission staff member became concerned about CDSLs upon reading recent articles in the Wall Street Journal. Based on this, the staff member questioned the adequacy of disclosure of CDSLs and suggested that California state legislation limiting CDSLs or requiring additional disclosure may be required. The Institute testified at the hearing that several recent changes had been adopted by the SEC and NASD to make disclosure of fees more prominent and easy to understand, including the SEC's requirement of a prospectus fee table, the NASD rule governing newspaper quotations and the NASD's pronouncement that brokers are affirmatively obligated to ensure that investors understand the nature of fees, including CDSLs. The Institute further testified that sufficient time has not been allowed to fully evaluate the new requirements and that any efforts to require additional disclosure or limitations, at this time, would be premature. - 2 - Based on the testimony, the Chairman of the Commission agreed that it was unnecessary to proceed with a proposal to require additional disclosure or to limit CDSLs. Attached is a copy of the Institute's testimony and a letter from the Commission confirming the Chairman's position. Natalie Shirley Associate General Counsel Attachment