

MEMO# 5081

August 19, 1993

NASD SOLICITS VOTE ON EXEMPTION FOR MONEY MARKET FUNDS FROM DISCLOSURE REQUIREMENT UNDER ASSET-BASED SALES CHARGE RULE

August 19, 1993 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 9-93 SEC RULES MEMBERS NO. 64-93 AD HOC COMMITTEE ON 12b-1 ISSUES RE: NASD SOLICITS VOTE ON EXEMPTION FOR MONEY MARKET FUNDS FROM DISCLOSURE REQUIREMENT UNDER ASSET-BASED SALES CHARGE RULE _____ The NASD has issued the attached Notice to Members soliciting a membership vote on a proposed amendment to its asset-based sales charge rule, Section 26(d) of the Rules of Fair Practice, to exempt money market funds from the disclosure required in subparagraph (4) that "long-term shareholders may pay more than the economic equivalent of the maximum front-end sales charge permitted by [the rules]." The last voting date is September 27, 1993. Since the new NASD rule governing investment company sales charges took effect on July 7, the NASD has received several applications for exemption from the disclosure requirement in Section 26(d)(4) on the basis that the disclosure may not be true for a particular mutual fund. In the case of a money market fund, the applicants assert that there is a high probability the statement will be inaccurate because such funds generally have very low asset-based sales charges and therefore an investor would have to be a shareholder for a long period of time before the disclosure would be true. The applicants suggest that since money market funds are traditionally short-term investments, it is unlikely that investors will stay in such funds for lengthy periods. Therefore, they believe that the disclosure may be misleading, or at least confusing, to money market fund shareholders. The NASD Board of Governors agrees with these arguments and recommends that members approve the amendment. We will keep you informed of developments. Amy B.R. Lancellotta Associate Counsel Attachment