

MEMO# 8254

September 20, 1996

INSTITUTE FILES SUPPLEMENTAL COMMENT LETTER ON NASD NON-CASH COMPENSATION PROPOSAL

September 20, 1996 TO: CLOSED-END FUND COMMITTEE No. 32-96 SALES FORCE
MARKETING COMMITTEE No. 32-96 SEC RULES COMMITTEE No. 103-96 UNIT INVESTMENT
TRUST COMMITTEE No. 41-96 RE: INSTITUTE FILES SUPPLEMENTAL COMMENT LETTER ON
NASD NON-CASH COMPENSATION PROPOSAL

_____ At the behest
of its Executive Committee, the Institute has filed with the SEC a supplemental comment
letter on the NASDs proposed amendments to its rules governing non- cash and cash
compensation received in connection with the sale of investment company securities. A
copy of the letter is attached. The supplemental letter recommends that the NASD revise its
proposal so as to permit members to create in-house incentive programs that focus on a
designated broad investment objective or category, instead of requiring that all investment
company securities sold by the member be included. The letter argues that the proposed
requirement that such programs include all investment company securities sold by the
member is not necessary to achieve the goal of ensuring that sales of certain investment
company securities do not receive preferential treatment. It also points out several
undesirable consequences of the proposed requirement, including that it would prohibit
NASD members from tailoring incentive programs to meet their clients needs. The letter
suggests that the NASD, in implementing the Institutes proposed revision: (1) require that
any in-house incentive program with a specific focus be based on a broad investment
objective or category (e.g., international funds, municipal bond funds, or growth and
income funds); (2) expressly prohibit discrimination among investment companies within
the designated objective or category; and (3) maintain the proposed requirement that the
credit received for each investment company included in the arrangement must be equally
weighted. Frances M. Stadler Associate Counsel Attachment