

MEMO# 3380

December 20, 1991

NASD PROPOSAL TO EXEMPT CERTAIN BULK EXCHANGES OF MONEY MARKET FUNDS FROM NEGATIVE RESPONSE LETTER RULE

December 20, 1991 TO: SEC RULES COMMITTEE NO. 74-91 BROKER/DEALER ADVISORY
COMMITTEE NO. 47-91 RE: NASD PROPOSAL TO EXEMPT CERTAIN BULK EXCHANGES OF
MONEY MARKET FUNDS FROM NEGATIVE RESPONSE LETTER RULE

As we previously informed you, the NASD sent out a Notice to Members reminding members of the requirements governing the use of "negative response" letters, i.e., letters which recommend that customers switch from one mutual fund to another and state that if the customer does not respond by a specific date, the exchange will be executed automatically. (See Memorandum to SEC Rules Committee No. 48-91, dated August 21, 1991). At the suggestion of the Institute and several of its members, the NASD has proposed an exemption from the provisions of Article III, Section 15 of its Rules of Fair Practice (which requires members to have a customer's written authorization to effect exchanges from one fund to another) for certain bulk exchanges of money market funds utilizing negative response letters. Under the NASD proposal, money market funds will be exempt from the rule provided that the following conditions are satisfied: (1) the bulk exchanges are limited to mergers and acquisitions of funds, changes of clearing members, and exchanges of funds used in sweep accounts; (2) the negative response letter contains a tabular comparison of the nature and amount of fees charged by each fund (e.g., management funds, 12b-1 fees); (3) the negative response letter contains a comparative description of the investment objectives of each fund and a prospectus of the fund to be purchased; and (4) the negative response feature will not be activated until at least 30 days after the date on which the letter was mailed. Comments are due to the NASD on this proposal by January 15, 1992. Therefore, please provide me with your comments for possible inclusion in the Institute's letter on the proposal by January 8, 1992. My direct number is 202/955-3523. Amy B.R. Lancellotta Associate General Counsel Attachment

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