

**MEMO# 2506**

January 31, 1991

## **SEC SOLICITS COMMENTS ON NASD PROPOSAL TO REQUIRE DISCLOSURE OF A DEFERRED SALES CHARGE ON CONFIRMATION STATEMENT**

January 31, 1991 TO: SEC RULES MEMBERS NO. 5-91 RULE 12b-1 AD HOC COMMITTEE RE: SEC SOLICITS COMMENTS ON NASD PROPOSAL TO REQUIRE DISCLOSURE OF A DEFERRED SALES CHARGE ON CONFIRMATION STATEMENT

\_\_\_\_\_ As we previously informed you, the NASD has proposed to amend its Rules of Fair Practice to require disclosure of a deferred sales charge on the confirmation statement sent to shareholders. (See Memorandum to SEC Rules Members No. 65-89 and Rule 12b-1 Ad Hoc Committee, dated December 5, 1989). The Institute submitted a comment letter to the NASD supporting the proposal but seeking clarification on whether the disclosure would be required (1) in the instance of a small redemption fee that is intended to discourage frequent trading and, thus, is not intended to cover distribution expenses and (2) with respect to dividend reinvestment plans. (See Memorandum to SEC Rules Members 1-90 and Rule 12b-1 Ad Hoc Committee, dated January 3, 1990). The NASD has filed its proposal with the SEC. With respect to the Institute's request for clarification concerning small redemption fees and dividend reinvestment plans, the NASD has taken the position that a change in the proposed amendment is not necessary to address these concerns (see p. 2975 of the attached release). First, the NASD stated that the term sales load is specifically defined in the Investment Company Act and that fees not within the scope of that definition are not included in the proposed rule amendment. Second, the NASD responded that automatic dividend or distribution reinvestment plans are exempt from the confirmation requirements and, therefore, the proposed rule change would not apply to such plans. Attached is a copy of the SEC release soliciting comments on the NASD proposal. The comment period for the proposal expires on February 15, 1991. Please provide me with any comments you may have on the proposal by February 11, 1991. Amy B.R. Lancellotta Assistant General Counsel Attachment