The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

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PROPOSED BOARD RESOLUTION ADOPTING VOLUNTARY NOMENCLATURE STANDARDS FOR MULTIPLE CLASS FUNDS

March 8, 1994 TO: BOARD OF GOVERNORS NO. 23-94 RE: PROPOSED BOARD RESOLUTION ADOPTING VOLUNTARY NOMENCLATURE STANDARDS FOR MULTIPLE CLASS FUNDS ____ Background As you are aware, the growth in the number of funds offering multiple classes of shares over the recent past has been enormous. At the end of 1993, there were 84 complexes offering 1,343 funds with a multiple class structure. Early in 1993, at meetings of the Sales Force Marketing and Operations Committees, members expressed concern about the absence of industry standardization in connection with the nomenclature for classes of shares. The concern is that, without some standardization, the growing number of classes and the diversity of class designations will hamper and lead to confusion in communications between and among funds, brokers and shareholders. A further concern is that confusion of shareholders could lead to an arbitrary, mandated solution through legislation or regulation. Accordingly, a joint task force of Sales Force Marketing and Operations Committee members was formed to consider the advisability of recommending guidelines for naming classes of new multiple class funds. The task force agreed unanimously that a continued proliferation of multiple classes of shares in the absence of some standardization will (1) lead to investor uncertainty and confusion, (2) create confusion among brokers and other intermediaries, (3) lead to corresponding operations problems, and (4) invite criticism from the financial news media that investors are facing too many choices. An initial proposal was developed by the task force as a suggested set of voluntary, general guidelines for fund sponsors to consider when structuring multiple class offerings in the future. The proposal of the task force was exposed for comments to the following Institute committees: Direct Marketing Public Information Industry Statistics Sales Force Marketing Marketing Policy SEC Rules Operations Shareholder Communications Based on written and verbal input from members, the proposal was revised as necessary to incorporate sufficient flexibility to reflect the majority of multiple class structures currently in existence and to accommodate future innovation. At a subsequent meeting of the Operations Committee the revised proposal was overwhelmingly supported. The Sales Force Marketing Committee also overwhelmingly supported the concept of voluntary guidelines, but a majority thought such guidelines should be made mandatory in some appropriate fashion. Presumably this would require formal action by the NASD or SEC, as no such requirement could be mandated by or through the Institute. The Proposal The proposal, which is presented in the attached table, sets out voluntary guidelines for four retail and two non-retail classes, as follows: Retail

Classes Non-Retail Classes Class A: Front End Load Class Y: Institutional Class B: Back End Load Class Z: Employees Class C: Level Load Class D: Hybrid Level Load Each class is described in terms of whether or not it includes each of five separate distribution-related features -- namely, front end load, back end load, asset based sales charge, service fee and automatic conversion. (Automatic conversion is an arrangement where an investor's shares in a particular class are automatically converted to shares in a different class after a specified period of time.) The guidelines were developed from the perspective of the investor. For example, under the guidelines, a class could be considered to have no front end load if an investor pas no front end load, irrespective of whether a salesperson receives compensation from the distributor at the point of sale. A note accompanying the proposal clarifies that the guidelines are meant to address only the issue of standardized nomenclature. They are not intended in any way to impose restrictions on or otherwise affect the types or amounts of any sales- related charges permitted under law. Action The Institute's Executive Committee has reviewed the proposal and, in principle, supports its adoption by the Board of Governors. The Executive Committee has asked that the proposal be sent to the Board of Governors now so that Governors might have sufficient time to send the Institute comments, which would be reviewed by the Executive Committee prior to the Board's May 4, 1994 meeting. The Executive Committee intends to propose to the Board a resolution adopting the proposal as voluntary guidelines for future application. Please send your comments on this proposal to Donald Boteler, Vice President - Operations at the Institute by March 31, 1994. Thank you for your attention to this matter. Matthew P. Fink President