

INFORMATIONAL

Investment Companies And Variable Contracts

SEC Approves Rule Change Relating To Sales Charges For Investment Companies And Variable Contracts; **Effective Date: April 1, 2000**

SUGGESTED ROUTING

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- Legal & Compliance
- Mutual Fund
- Registered Representatives
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- Variable Contracts

KEY TOPICS

- Investment Companies
- Mutual Funds
- NASD Rules 2820 And 2830
- Variable Contracts

Executive Summary

On October 20, 1999, the Securities and Exchange Commission (SEC) approved amendments to National Association of Securities Dealers, Inc. (NASD[®]) Rules 2820 (Variable Contracts Rule) and 2830 (Investment Company Rule) that regulate the sales charges imposed by investment companies and variable annuity contracts sold by NASD members. Generally, the amendments revise the Investment Company Rule to:

- provide maximum aggregate sales charge limits for fund-of-funds arrangements;
- permit mutual funds to charge installment loads;
- prohibit loads on reinvested dividends;
- impose redemption order requirements for shares subject to contingent deferred sales loads (CDSLs); and
- eliminate duplicative prospectus disclosure.

The amendments revise the Variable Contracts Rule to eliminate the specific sales charge limitations in the rule and a filing requirement relating to changes in sales charges. The amendments are effective on April 1, 2000. The text of the amendments is included in Attachment A.

Questions/Further Information

Questions concerning this *Notice* may be directed to Thomas M. Selman, Vice President, Investment Companies/Corporate Financing, NASD Regulation, Inc. (NASD RegulationSM) at (240) 386-4533; or Joseph P. Savage, Counsel, Advertising/Investment Companies

Regulation, NASD Regulation, at (202) 728-8233.

Amendments To The Investment Company Rule Funds Of Funds

The National Securities Markets Improvement Act of 1996 (NSMIA) amended the Investment Company Act of 1940 (1940 Act) to, among other things, expand the ability of mutual fund sponsors to create "fund of funds"¹ structures. At the time NSMIA was enacted, the Investment Company Rule did not specifically address two-tier fund of fund structures in which both the acquiring fund and the underlying fund impose sales charges. We have amended the Investment Company Rule to ensure that, if both levels of funds in a fund of funds structure impose sales charges, the combined sales charges do not exceed the maximum percentage limits currently contained in the rule.

The amendments permit the acquiring fund, the underlying fund, or both, to impose asset-based sales charges that in the aggregate do not exceed 0.75 percent of average net assets, and service fees that in the aggregate do not exceed 0.25 percent. Aggregate front-end and deferred sales charges in any transaction are limited to 7.25 percent of the amount invested, or 6.25 percent if either the acquiring fund or the underlying fund pays a service fee.

The amendments impose the rule's restrictions on the use of the terms "no load" or "no sales charge" on the acquiring fund, the underlying fund, and those funds in combination. The amendments require funds in a fund of funds structure that impose asset-based sales charges to make their remaining amount calculations on

an individual basis. The amendments do not, however, require funds of funds to make this calculation on an aggregate basis.

Deferred Sales Loads

In 1996, the SEC amended Rule 6c-10 under the 1940 Act to allow certain types of deferred sales charges, such as back-end and installment loads. The amendments conform the definition of "deferred sales charge" in the Investment Company Rule to the definition of "deferred sales load" in Rule 6c-10.² Thus, "deferred sales charge" is now defined as "any amount properly chargeable to sales or promotional expenses that is paid by a shareholder after purchase but before or upon redemption." This amendment makes clear that members may offer funds that impose deferred sales charges permitted under Rule 6c-10, subject to the sales charge limits imposed by the Investment Company Rule.

Loads On Reinvested Dividends

The amendments to the Investment Company Rule generally prohibit members from offering or selling the shares of an investment company if it has a front-end or deferred sales charge imposed on shares purchased through the reinvestment of dividends. The prohibition of sales loads on reinvested dividends will not apply to any investment company whose registration statement under the Securities Act of 1933 (1933 Act) was or will be declared effective prior to April 1, 2000. This exception effectively "grandfathers" all existing mutual funds and unit investment trusts (UITs), as well as

those mutual funds and UITs whose 1933 Act registration statements become effective prior to April 1, 2000.³ New mutual funds and UITs that are declared effective under the 1933 Act (including new funds or UITs created pursuant to a post-effective amendment to an existing registration statement under the Investment Company Act of 1940) on or after April 1, 2000, are subject to the prohibition.

CDSL Calculations

The amendments to the Investment Company Rule reinstate redemption order requirements for shares subject to CDSLs that were eliminated by the SEC's 1996 amendments to its Rule 6c-10. As amended, the Investment Company Rule prohibits members from offering or selling the shares of an investment company subject to a CDSL unless the CDSL is calculated so that shares not subject to the CDSL are redeemed first, and other shares are then redeemed in the order purchased. This first-in-first-out (FIFO) redemption order requirement generally ensures that shareholder transactions are subject to the lowest applicable CDSL. The amendments do allow a redemption order other than FIFO, however, if it would result in the redeeming shareholder paying a lower CDSL.

Prospectus Disclosure

Prior to these amendments, the Investment Company Rule prohibited a member from offering or selling shares of an investment company with an asset-based sales charge unless its prospectus disclosed that long-term shareholders may pay more than

the economic equivalent of the maximum front-end sales charges permitted in the rule. In March 1998, the SEC adopted significant revisions to mutual fund prospectus disclosure requirements, one of which was a disclosure requirement related to asset-based sales charges. In light of this SEC requirement, NASD Regulation is eliminating this disclosure requirement in the Investment Company Rule.

Amendments To The Variable Contracts Rule

In 1996, NSMIA fundamentally changed the way the SEC regulates sales charges for variable insurance contracts by eliminating specific limits on fees and imposing a reasonableness standard on aggregate fees. This reasonableness standard is to be administered by the SEC.

In light of these amendments, NASD Regulation is eliminating the maximum sales charge limitations in the Variable Contracts Rule. The amendments also make a conforming change to eliminate the requirement to file the details of any changes in a variable annuity's sales charges with the Advertising/Investment Companies Regulation Department.

Effective Date Of Amendments

The amendments to the Variable Contracts Rule and Investment Company Rule are effective on April 1, 2000.

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Endnotes

¹“Fund of funds” is defined as an investment company whose investments in other registered investment companies exceed the limits permitted under Section 12(d)(1)(A) of the 1940 Act. Section 12(d)(1)(A) of the 1940 Act permits an investment company to invest in up to three percent of the

outstanding voting shares of another investment company, provided that the value of such shares represents less than five percent of the acquiring fund’s total assets, and the acquiring fund’s investments in all other funds represent less than 10 percent of the acquiring fund’s total assets.

²See 17 C.F.R. § 270.6c-10(b)(3).

³To the extent that footnote 7 of the SEC’s order approving the amendments suggests that they do not “grandfather” existing investment companies, that inference is incorrect.

ATTACHMENT A**Text Of Amendments To Rules 2820 And 2830**

(Note: New text is underlined; deletions are bracketed.)

Rule 2820 Variable Contracts of an Insurance Company

(a) - (b) No change

[(c) Sales Charges]

[No member shall participate in the offering or in the sale of variable annuity contracts if the purchase payment includes a sales charge which is excessive:]

[(1) Under contracts providing for multiple payments a sales charge shall not be deemed to be excessive if the sales charge stated in the prospectus does not exceed 8.5% of the total payments to be made thereon as of a date not later than the end of the twelfth year of such payments, provided that if a contract be issued for any stipulated shorter payment period, the sales charge under such contract shall not exceed 8.5% of the total payments thereunder for such period.]

[(2) Under contracts providing for single payments a sales charge shall not be deemed to be excessive if the prospectus sets forth a scale of reducing sales charges related to the amount of the purchase payment which is not greater than the following schedule:

First \$25,000 - 8.5% of purchase payment

Next \$25,000 - 7.5% of purchase payment

Over \$50,000 - 6.5% of purchase payment]

[(3) Under contracts where sales charges and other deductions for purchase payments are not stated separately in the prospectus the total deductions from purchase payments (excluding those for insurance premiums and premium taxes) shall be treated as a sales charge for purposes of this rule and shall not be deemed to be excessive if they do not exceed the percentages for multiple and single payment contracts described in paragraphs (1) and (2) above.]

[(4) Every member who is an underwriter and/or issuer of variable annuities shall file with Advertising/Investment Companies Regulation Department, prior to implementation, the details of any changes or proposed changes in the sales charges of such variable annuities, if the changes or proposed changes would increase the effective sales charge on any transaction. Such filings should be clearly identified as an "Amendment to Variable Annuity Sales Charges."]

[(d)] (c) Receipt of Payment

No member shall participate in the offering or in the sale of a variable contract on any basis other than at a value to be determined following receipt of payment therefor in accordance with the provisions of the contract, and, if applicable, the prospectus, the Investment Company Act of 1940 and applicable rules thereunder. Payments need not be considered as received until the contract application has been accepted by the insurance company, except that

by mutual agreement [it] they may be considered to have been received for the risk of the purchaser when actually received.

[(e)] (d) Transmittal

Every member who receives applications and/or purchase payments for variable contracts shall transmit promptly to the issuer all such applications and at least that portion of the purchase payment required to be credited to the contract.

[(f)] (e) Selling Agreement

No member who is a principal underwriter as defined in the Investment Company Act of 1940 may sell variable contracts through another broker/dealer unless (1) such broker/dealer is a member, and (2) there is a sales agreement in effect between the parties. Such sales agreement must provide that the sales commission be returned to the issuing insurance company if the variable contract is tendered for redemption within seven business days after acceptance of the contract application.

[(g)] (f) Redemption

No member shall participate in the offering or in the sale of a variable contract unless the insurance company, upon receipt of a request in proper form for partial or total redemption in accordance with the provisions of the contract undertakes to make prompt payment of the amounts requested and payable under the contract in accordance with the terms thereof, and, if applicable, the prospectus, the Investment Company Act of 1940 and applicable rule thereunder.

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[(h)] (g) Member Compensation

In connection with the sale and distribution of variable contracts:

(1) Except as described below, no associated person of a member shall accept any compensation from anyone other than the member with which the person is associated. This requirement will not prohibit arrangements where a non-member company pays compensation directly to associated persons of the member, provided that:

(A) the arrangement is agreed to by the member;

(B) the member relies on an appropriate rule, regulation, interpretive release, interpretive letter, or "no-action" letter issued by the Securities and Exchange Commission that applies to the specific fact situation of the arrangement;

(C) the receipt by associated persons of such compensation is treated as compensation received by the member for purposes of NASD rules; and

(D) the recordkeeping requirement in subparagraph [(h)](g)(3) is satisfied.

(2) No member or person associated with a member shall accept any compensation from an offeror which is in the form of securities of any kind.

(3) Except for items as described in subparagraphs [(h)](g)(4)(A) and (B), a member shall maintain records of all compensation received by the member or its associated persons from offerors.

The records shall include the names of the offerors, the names of the associated persons, the amount of cash, the nature and, if known, the value of non-cash compensation received.

(4) No member or person associated with a member shall directly or indirectly accept or make payments or offers of payments of any non-cash compensation, except as provided in this provision. Notwithstanding the provisions of subparagraph [(h)](g)(1), the following non-cash compensation arrangements are permitted:

(A) Gifts that do not exceed an annual amount per person fixed periodically by the Board of Governors* and are not preconditioned on achievement of a sales target.

(B) An occasional meal, a ticket to a sporting event or the theater, or comparable entertainment which is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target.

(C) Payment or reimbursement by offerors in connection with meetings held by an offeror or by a member for the purpose of training or education of associated persons of a member, provided that:

(i) the recordkeeping requirement in subparagraph [(h)](g)(3) is satisfied;

(ii) associated persons obtain the member's prior approval to attend the meeting and attendance by a member's

associated persons is not preconditioned by the member on the achievement of a sales target or any other incentives pursuant to a non-cash compensation arrangement permitted by subparagraph [(h)](g)(4)(D);

(iii) the location is appropriate to the purpose of the meeting, which shall mean an office of the offeror or the member, or a facility located in the vicinity of such office, or a regional location with respect to regional meetings;

(iv) the payment or reimbursement is not applied to the expenses of guests of the associated person; and

(v) the payment or reimbursement by the offeror is not preconditioned by the offeror on the achievement of a sales target or any other non-cash compensation arrangement permitted by subparagraph [(h)](g)(4)(D).

(D) Non-cash compensation arrangements between a member and its associated persons or a non-member company and its sales personnel who are associated persons of an affiliated member, provided that:

(i) the member's or non-member's non-cash compensation arrangement, if it includes variable contracts, is based on the total production of associated persons with respect to all variable contracts distributed by the member;

*The current annual amount fixed by the Board of Governors is \$100.

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(ii) the non-cash compensation arrangement requires that the credit received for each variable contract is equally weighted;

(iii) no unaffiliated non-member company or other unaffiliated member directly or indirectly participates in the member's or non-member's organization of a permissible non-cash compensation arrangement; and

(iv) the recordkeeping requirement in subparagraph [(h)](g)(3) is satisfied.

(E) Contributions by a non-member company or other member to a non-cash compensation arrangement between a member and its associated persons, or contributions by a member to a non-cash compensation arrangement of a non-member, provided that the arrangement meets the criteria in subparagraph [(h)](g)(4)(D).

Rule 2830 Investment Company Securities

(a) Application

This Rule shall apply exclusively to the activities of members in connection with the securities of companies registered under the Investment Company Act of 1940 ("the 1940 Act"); provided, however, that Rule 2820 shall apply, in lieu of this Rule, to members' activities in connection with "variable contracts" as defined therein.

(b) Definitions

(1) The terms "affiliated member," "compensation," "cash compensation," "non-cash

compensation" and "offeror" as used in paragraph (l) of this section shall have the following meanings:

"Affiliated Member" shall mean a member which, directly or indirectly, controls, is controlled by, or is under common control with a non-member company.

"Compensation" shall mean cash compensation and non-cash compensation.

"Cash compensation" shall mean any discount, concession, fee, service fee, commission, asset-based sales charge, loan, override or cash employee benefit received in connection with the sale and distribution of investment company securities.

"Non-cash compensation" shall mean any form of compensation received in connection with the sale and distribution of investment company securities that is not cash compensation, including but not limited to merchandise, gifts and prizes, travel expenses, meals and lodging.

"Offeror" shall mean an investment company, an adviser to an investment company, a fund administrator, an underwriter and any affiliated person (as defined in Section 2(a)(3) of the [Investment Company Act of 1940] 1940 Act) of such entities.

(2) "Brokerage commissions," as used in paragraph (k), shall not be limited to commissions on agency transactions but shall include underwriting discounts or concessions and fees to members in connection with tender offers.

(3) "Covered account," as used in paragraph (k), shall mean (A) any other investment company or other account managed by the investment adviser of such investment company, or (B) any other account from which brokerage commissions are received or expected as a result of the request or direction of any principal underwriter of such investment company or of any affiliated person (as defined in the [Investment Company Act of 1940] 1940 Act) of such investment company or of such underwriter, or of any affiliated person of an affiliated person of such investment company.

(4) "Person" shall mean "person" as defined in the [Investment Company Act of 1940] 1940 Act.

(5) "Prime rate," as used in paragraph (d), shall mean the most preferential interest rate on corporate loans at large U.S. money center commercial banks.

(6) "Public offering price" shall mean a public offering price as set forth in the prospectus of the issuing company.

(7) "Rights of accumulation," as used in paragraph (d), shall mean a scale of reducing sales charges in which the sales charge applicable to the securities being purchased is based upon the aggregate quantity of securities previously purchased or acquired and then owned plus the securities being purchased.

The quantity of securities owned shall be based upon:

(A) The current value of such securities (measured by either net asset value or maximum offering price); or

(B) Total purchases of such securities at actual offering prices; or

(C) The higher of the current value or the total purchases of such securities.

The quantity of securities owned may also include redeemable securities of other registered investment companies having the same principal underwriter.

(8) "Sales Charge" and "sales charges," as used in paragraph (d), shall mean all charges or fees that are paid to finance sales or sales promotion expenses, including front-end deferred and asset-based sales charges, excluding charges and fees for ministerial, recordkeeping or administrative activities and investment management fees. For purposes of this Rule, members may rely on the sales-related fees and charges disclosed in the prospectus of an investment company.

(A) An "asset-based sales charge" is a sales charge that is deducted from the net assets of an investment company and does not include a service fee.

(B) A "deferred sales charge" is [a sales charge that is deducted from the proceeds of the redemption of shares by an investor, excluding any such charges that are (i) nominal and are for services in connection with a redemption or (ii) discourage short-term trading, that are not used to finance sales-related expenses, and that are credited to the net assets of the investment company] any amount properly chargeable to sales or

promotional expenses that is paid by a shareholder after purchase but before or upon redemption.

(C) A "front-end sales charge" is a sales charge that is included in the public offering price of the shares of an investment company.

(9) "Service fees," as used in paragraph (d), shall mean payments by an investment company for personal service and/or the maintenance of shareholder accounts.

(10) The terms "underwriter," "principal underwriter," "redeemable security," "periodic payment plan," "open-end management investment company," and "unit investment trust," shall have the same definitions used in the [Investment Company Act of 1940] 1940 Act.

(11) A "fund of funds" is an investment company that acquires securities issued by any other investment company registered under the 1940 Act in excess of the amounts permitted under paragraph (A) of Section 12(d)(1) of the 1940 Act. An "acquiring company" in a fund of funds is the investment company that purchases or otherwise acquires the securities of another investment company, and an "acquired company" is the investment company whose securities are acquired.

(12) "Investment companies in a single complex" are any two or more companies that hold themselves out to investors as related companies for purposes of investment and investor services.

(c) Conditions of Discounts to Dealers

No member who is an underwriter of the securities of an investment company shall sell any such security to any dealer or broker at any price other than a public offering price unless such sale is in conformance with Rule 2420 and, if the security is issued by an open-end management company or by a unit investment trust which invests primarily in securities issued by other investment companies, unless a sales agreement shall set forth the concessions to be received by the dealer or broker.

(d) Sales Charge

No member shall offer or sell the shares of any open-end investment company or any "single payment" investment plan issued by a unit investment trust (collectively "investment companies") registered under the [Investment Company Act of 1940] 1940 Act if the sales charges described in the prospectus are excessive. Aggregate sales charges shall be deemed excessive if they do not conform to the following provisions:

(1) Investment Companies Without an Asset-Based Sales Charge

(A) Aggregate front-end and/[or] deferred sales charges described in the prospectus which may be imposed by an investment company without an asset-based sales charge shall not exceed 8.5% of the offering price.

[(B) (i) Dividend reinvestment may be made available at net asset value per share to any person who requests such reinvestment.

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(ii) If dividend reinvestment is not made available as specified in subparagraph (B)(i) above, the maximum aggregate sales charge shall not exceed 7.25% of offering price.]

[(C)](B)(i) Rights of accumulation (cumulative quantity discounts) may be made available to any person in accordance with one of the alternative quantity discount schedules provided in subparagraph [(D)](C)(i) below, as in effect on the date the right is exercised.

(ii) If rights of accumulation are not made available on terms at least as favorable as those specified in subparagraph (C)(i) the maximum aggregate sales charge shall not exceed[.:]

[(a)] 8.0% of offering price, [if the provisions of subparagraph (B)(i) are met; or

(b) 6.75% of offering price if the provisions of subparagraph (B)(i) are not met.]

[(D)](C)(i) Quantity discounts, if offered, shall be made available on single purchases by any person in accordance with one of the following two alternatives:

a. A maximum aggregate sales charge of 7.75% on purchases of \$10,000 or more and a maximum aggregate sales charge of 6.25% on purchases of \$25,000 or more, or

b. A maximum aggregate sales charge of 7.50% on

purchases of \$15,000 or more and a maximum aggregate sales charge of 6.25% on purchases of \$25,000 or more.

(ii) If quantity discounts are not made available on terms at least as favorable as those specified in subparagraph [(D)](C)(i) the maximum aggregate sales charge shall not exceed:

a. 7.75% of offering price if the provisions of subparagraph[s (B)(i) and (C)(i)] (B) are met.

b. 7.25% of offering price if [the provisions of subparagraph (B)(i) are met but] the provisions of subparagraph [(C)(i)](B) are not met.

[c. 6.50% of offering price if the provisions of subparagraph (C) (i) are met but the provision of subparagraph (B)(i) are not met.]

[d. 6.25% of offering price if the provisions of subparagraphs (B)(i) and (C)(i) are not met.]

[(E)] (D) If an investment company without an asset-based sales charge pays a service fee, the maximum aggregate sales charge shall not exceed 7.25% of the offering price.

[(F) If an investment company without an asset-based sales charge reinvests dividends at offering price, it shall not offer or pay a service fee unless it offers quantity discounts and rights of accumulation and the maximum aggregate sales

charge does not exceed 6.25% of the offering price.]

(2) Investment Companies With an Asset-Based Sales Charge

(A) Except as provided in subparagraphs (C) and (D), the aggregate asset-based, front-end and deferred sales charges described in the prospectus which may be imposed by an investment company with an asset-based sales charge, if the investment company has adopted a plan under which service fees are paid, shall not exceed 6.25% of total new gross sales (excluding sales from the reinvestment of distributions and exchanges of shares between investment companies in a single complex, between classes [of shares] of an investment company with multiple classes of shares or between series [shares] of a series investment company) plus interest charges on such amount equal to the prime rate plus one percent per annum. The maximum front-end or deferred sales charge resulting from any transaction shall be 6.25% of the amount invested.

(B) Except as provided in subparagraphs (C) and (D), if an investment company with an asset-based sales charge does not pay a service fee, the aggregate asset-based, front-end and deferred sales charges described in the prospectus shall not exceed 7.25% of total new gross sales (excluding sales from the reinvestment of distributions and exchanges of shares between investment companies in a single complex, between classes [of shares] of an investment company with multiple classes of shares or between series [shares] of a

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series investment company) plus interest charges on such amount equal to the prime rate plus one percent per annum. The maximum front-end or deferred sales charge resulting from any transaction shall be 7.25% of the amount invested.

(C) The maximum aggregate sales charge on total new gross sales set forth in subparagraphs (A) and (B) may be increased by an amount calculated by applying the appropriate percentages of 6.25% or 7.25% of total new gross sales which occurred after an investment company first adopted an asset-based sales charge until July 7, 1993, plus interest charges on such amount equal to the prime rate plus one percent per annum less any front-end, asset-based or deferred sales charges on such sales or net assets resulting from such sales.

(D) The maximum aggregate sales charges of an investment company in a single complex, a class or share issued by an investment company with multiple classes of shares or a separate series of a series investment company, may be increased to include sales of exchanged shares provided that such increase is deducted from the maximum aggregate sales charges of the investment company, class or series which redeemed the shares for the purpose of such exchanges.

(E) No member shall offer or sell the shares of an investment company with an asset-based sales charge if:

(i) The amount of the asset-based sales charge exceeds .75 of 1% per annum of the

average annual net assets of the investment company; or

(ii) Any deferred sales charges deducted from the proceeds of a redemption after the maximum cap, described in subparagraphs (A), (B), (C) and (D) hereof, has been attained are not credited to the investment company.

(3) Fund of Funds

(A) If neither an acquiring company nor an acquired company in a fund of funds structure has an asset-based sales charge, the maximum aggregate front-end and deferred sales charges that may be imposed by the acquiring company, the acquired company and those companies in combination, shall not exceed the rates provided in paragraph (d)(1).

(B) Any acquiring company or acquired company in a fund of funds structure that has an asset-based sales charge shall individually comply with the requirements of paragraph (d)(2), provided:

(i) If the acquiring and acquired companies are in a single complex and the acquired fund has an asset-based sales charge, sales made to the acquiring fund shall be excluded from total gross new sales for purposes of acquired fund's calculations under subparagraphs (d)(2)(A) through (d)(2)(D); and

(ii) If both the acquiring and acquired companies have an asset-based sales charge: (a) the maximum aggregate

asset-based sales charge imposed by the acquiring company, the acquired company and those companies in combination, shall not exceed the rate provided in subparagraph (d)(2)(E)(i); and (b) the maximum aggregate front-end or deferred sales charges shall not exceed 7.25% of the amount invested, or 6.25% if either company pays a service fee.

(C) The rates described in subparagraphs (d)(4) and (d)(5) shall apply to the acquiring company, the acquired company and those companies in combination. The limitations of subparagraph (d)(6) shall apply to the acquiring company and the acquired company individually.

~~[(3)]~~(4) No member or person associated with a member shall, either orally or in writing, describe an investment as being "no load" or as having "no sales charge" if the investment company has a front-end or deferred sales charge or [whose] its total charges against net assets to provide for sales related expenses and/or service fees exceed .25 of 1% of average net asset per annum.

[(4) No member or person associated with a member shall offer or sell the securities of an investment company with an asset-based sales charge unless its prospectus discloses that long-term shareholders may pay more than the economic equivalent of the maximum front-end sales charges permitted by this Rule. Such disclosure shall be adjacent to the fee table in the front section of a prospectus. This subparagraph shall not

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apply to money market mutual funds which have asset-based sales charges equal to or less than .25 of 1% of average net assets per annum.]

(5) No member or person associated with a member shall offer or sell the securities of an investment company if the service fees paid by the investment company, as disclosed in the prospectus, exceed .25 of 1% of its average annual net assets or if a service fee paid by the investment company, as disclosed in the prospectus, to any person who sells its shares exceeds .25 of 1% of the average annual net asset value of such shares.

(6) No member or person associated with a member shall

offer or sell the securities of an investment company if:

(A) The investment company has a deferred sales charge paid upon redemption that declines over the period of a shareholder's investment ("contingent deferred sales load"), unless the contingent deferred sales load is calculated as if the shares or amounts representing shares not subject to the load are redeemed first, and other shares or amounts representing shares are then redeemed in the order purchased, provided that another order of redemption may be used if such order would result in the redeeming shareholder paying a lower contingent deferred sales load; or

(B) The investment company has a front-end or deferred sales charge imposed on shares, or amounts representing shares, that are purchased through the reinvestment of dividends, unless the registration statement registering the investment company's securities under the Securities Act of 1933 became effective prior to April 1, 2000.

(e) - (l) No change.

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