

rule 30-5. The Commission also is making a technical correction to Item 16(10) of Form N-14.¹⁰ The last clause of Item 16(10) currently includes the phrase "a meeting of the minutes." That phrase should be "the minutes of the meeting."

III. Cost/Benefit Analysis

The amendment provides that a rule 12b-1 plan adopted prior to a fund's initial public offering does not have to be approved by shareholders. Shareholder approval in these circumstances is unnecessary since the fund's board of directors must approve the rule 12b-1 plan, and investors participating in the fund's initial public offering effectively "vote with their dollars" to accept the plan. Under the amended rule, funds are no longer required to undergo the perfunctory exercise of obtaining approval from persons who have supplied the fund with its initial capital prior to the fund's initial public offering.

IV. Regulatory Flexibility Act Certification

Pursuant to section 605(b) of the Regulatory Flexibility Act [5 U.S.C. 605(b)], the Chairman of the Commission certified, at the time that the proposed technical amendment to rule 12b-1 was published for public comment, that the amendment would not, if adopted, have a significant economic impact on a substantial number of small entities. No comments were received regarding the certification. The amendment enables funds, including small entities, to forgo the minimal time and expense associated with obtaining shareholder approval of rule 12b-1 plans from persons who have supplied the fund with its initial capital prior to the fund's initial public offering.

V. Statutory Authority

The Commission is amending rule 12b-1 pursuant to the authority set forth in sections 12(b) and 38(a) of the Investment Company Act [15 U.S.C. 12(b), 37(a)]. The Commission is making technical corrections to rule 30-5 pursuant to section 4A of the Securities Exchange Act of 1934 [15 U.S.C. 78d-1] ("Exchange Act"), and Form N-14 pursuant to sections 6, 7, 8, 10 and 19(a) of the Securities Act of 1933 [15 U.S.C. 77f, 77h, 77j and 77s(a)] and sections 14(a), 14(c) and 23(a) of the Exchange Act [15 U.S.C. 78n(a), 78n(c) and 78w].

List of Subjects in 17 CFR Parts 200, 239 and 270

Authority delegations (Government agencies), Investment companies, Reporting and recordkeeping requirements, Securities.

Text of Rule and Form Amendments

For the reasons set out in the preamble, Title 17, Chapter II of the Code of Federal Regulations is amended as follows:

PART 200—ORGANIZATION; CONDUCT AND ETHICS; AND INFORMATION REQUESTS

1. The authority citation for part 200, subpart A continues to read in part as follows:

Authority: 15 U.S.C. 77s, 78d-1, 78d-2, 78w, 78ll(d), 79t, 77sss, 80a-37, 80b-11, unless otherwise noted.

* * * * *

2. Section 200.30-5 is amended in paragraph (a)(8)(ii)(B) by removing the cite "(a)(9)(i) (A) and (C)" and adding "(a)(8)(i) (A) and (C)".

PART 239—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

3. The authority citation for Part 239 continues to read, in part, as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77sss, 78c, 78l, 78m, 78n, 78o(d), 78w(a), 78ll(d), 79e, 79f, 79g, 79j, 79l, 79m, 79n, 79q, 79t, 80a-8, 80a-29, 80a-30 and 80a-37, unless otherwise noted.

* * * * *

4. Form N-14 [referenced in 17 CFR 239.23] is amended in the last clause of Item 16(10) by removing the phrase "a meeting of the minutes" and adding in its place "the minutes of the meeting".

Note: Form N-14 does not, and the amendment to Form N-14 will not, appear in the Code of Federal Regulations.

PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

5. The authority citation for part 270 continues to read, in part, as follows:

Authority: 15 U.S.C. 80a-1 *et seq.*, 80a-37, 80a-39 unless otherwise noted;

* * * * *

6. Section 270.12b-1 is amended by revising paragraph (b)(1) to read as follows:

§ 270.12b-1 Distribution of shares by registered open-end management investment company.

* * * * *

(b) * * *

(1) Such plan has been approved by a vote of at least a majority of the outstanding voting securities of such

company, if adopted after any public offering of the company's voting securities or the sale of such securities to persons who are not affiliated persons of the company, affiliated persons of such persons, promoters of the company, or affiliated persons of such promoters;

* * * * *

By the Commission.

Dated: September 9, 1996.

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 239, 270, and 274

[Release Nos. 33-7328; IC-22202; File No. S7-8-95]

RIN 3235-AD18

Exemption for Certain Open-End Management Investment Companies to Impose Deferred Sales Loads

AGENCY: Securities and Exchange Commission.

ACTION: Final rule.

SUMMARY: The Commission is adopting amendments to the rule under the Investment Company Act of 1940 that permits contingent deferred sales loads to be imposed on the shares of certain registered open-end management investment companies ("mutual funds" or "funds"). The Commission also is adopting amendments to the registration form for mutual funds, and publishing a staff guide to the registration form. The rule amendments allow mutual funds to offer investors a wider variety of deferred sales loads, including installment loads, and eliminate certain requirements in the rule. The form amendments modify the requirements for disclosing deferred sales loads in mutual fund prospectuses to reflect the changes made by the rule amendments.

EFFECTIVE DATE: The rule and form amendments will become effective October 17, 1996.

FOR FURTHER INFORMATION CONTACT:

Nadya B. Roytblat, Assistant Chief, or Kenneth J. Berman, Assistant Director, at (202) 942-0690, Office of Regulatory Policy, Division of Investment Management, Securities and Exchange Commission, 450 Fifth Street, N.W., Mail Stop 10-2, Washington, D.C. 20549. Requests for formal interpretive advice should be directed to the Office of Chief Counsel at (202) 942-0659,

¹⁰ 17 CFR 239.23.

Division of Investment Management, Securities and Exchange Commission, 450 Fifth Street, N.W., Mail Stop 10-6, Washington, D.C. 20549.

SUPPLEMENTARY INFORMATION: The Commission is adopting amendments to rule 6c-10 [17 CFR 270.6c-10] under the Investment Company Act of 1940 [15 U.S.C. 80a] (the "Investment Company Act" or the "Act"), and to Form N-1A [17 CFR 239.15A, 274.11A] under the Securities Act of 1933 [15 U.S.C. 77a-77aa] (the "Securities Act") and the Investment Company Act. The Commission also is adopting a conforming amendment to rule 11a-3 [17 CFR 270.11a-3] under the Investment Company Act.

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I. Executive Summary

The Commission is adopting amendments to rule 6c-10 under the Investment Company Act to remove certain restrictions on the types of deferred sales loads that may be imposed on the shares of mutual funds. Rule 6c-10 currently permits only contingent deferred sales loads ("CDSLs"). A CDSL is paid at redemption, but declines to zero if the shares are held for a certain period of time. The amendments allow sales charges paid upon redemption ("back-end loads") that differ from CDSLs (e.g., sales loads that do not decline to zero) as well as loads paid after purchase during the term of a shareholder's investment in a fund, for example, in installments ("installment loads"). These new types of deferred sales loads

would be alternatives to existing load structures.

II. Background

The Commission is adopting amendments to rule 6c-10 under the Investment Company Act, the rule that permits CDSLs to be imposed on mutual fund shares. The amendments allow funds to offer other types of deferred sales loads that may provide desirable flexibility for both investors and funds.

Rule 6c-10 was adopted in February, 1995.¹ The rule essentially codified the conditions in the nearly 300 exemptive orders permitting CDSLs that had been issued by the Commission since 1981. A CDSL is paid at redemption, but declines to zero if the shares are held for a certain period of time. CDSLs typically are imposed in combination with an asset-based distribution fee charged in accordance with rule 12b-1 under the Act ("rule 12b-1 fee"),² an arrangement commonly called a "spread load."

Contemporaneously with the adoption of rule 6c-10, the Commission proposed amendments designed to allow greater flexibility in the types of deferred sales load structures offered to investors, including loads payable in installments.³ The Commission also proposed changes to the prospectus disclosure requirements for deferred loads to complement the proposed changes to rule 6c-10.

The Commission received letters from three commenters, all of which strongly supported the proposed amendments.⁴ In addition, when rule 6c-10 was initially proposed in 1988 to allow various types of deferred sales charges, the Commission received 33 comments, including 19 comments from individual investors.⁵ Both in 1988 and in response to the proposed amendments, commenters indicated that flexibility in deferred load structures would be desirable for both funds and investors. Individual investors commenting on the

1988 proposal in particular supported installment loads as an option in paying a sales charge.⁶ Some investors, for example, compared installment loads to front-end loads and preferred the former as allowing them to defer the payment of a sales charge; others compared installment loads to rule 12b-1 fees, and believed that installment loads represent a more precise charge, as well as one that would be payable within a more definite term.⁷ The Commission is adopting the amendments to rule 6c-10, and modifying the prospectus disclosure requirements to reflect these comments as well as its continued study of deferred sales charges.

III. Discussion of Amendments to Rule 6c-10

The amendments to rule 6c-10 allow back-end sales loads other than CDSLs, as well as loads payable during the term of a shareholder's investment in a fund, such as in installments. The amendments remove certain requirements in the rule regarding the way in which a load must be calculated, as well as the current prohibition on imposing deferred sales loads on shares purchased through reinvested dividends and other distributions. The terms of any deferred sales load, however, must be covered by the NASD Sales Charge Rule.⁸

A. Scope of the Amended Rule

The rule as amended defines a deferred sales load as any amount properly chargeable to sales or promotional expenses that is paid by a shareholder after purchase but before or upon redemption.⁹ The definition includes CDSLs as well as loads paid at redemption whose amount may remain the same or change over time in a manner different from a CDSL, for

⁶All but one of 19 letters from individual investors favored installment loads.

⁷Industry commenters also suggested that installment loads would offer greater certainty than CDSLs and spread load structures, thereby making it easier for certain mutual fund sponsors to obtain financing for their distribution expenses.

⁸The NASD Sales Charge Rule prohibits NASD members from offering or selling shares of a mutual fund if the sales charges described in the fund's prospectus are excessive. Aggregate sales charges are deemed excessive under the Rule if they do not conform to the specific provisions set forth in the Rule. NASD Conduct Rules, Rule 2830(d) (1) and (2).

⁹Paragraph (b)(3) of rule 6c-10 as amended. The rule is not applicable to certain charges that may be imposed by a mutual fund to compensate the fund for the cost of redeeming shares and that are paid directly to the fund. See, e.g., rule 11a-3 under the Act [17 CFR 270.11a-3(a)(7)] (defining a "redemption fee"). The Commission staff has taken the position that these charges may be imposed without the need for exemptive relief under the Act. See, e.g., John P. Reilly & Associates (*pub. avail.* July 12, 1979).

¹Exemption for Certain Open-End Management Investment Companies to Impose Contingent Deferred Sales Loads, Investment Company Act Release No. 20916 (Feb. 23, 1995) [60 FR 11887 (Mar. 2, 1995)].

²17 CFR 270.12b-1.

³Exemption for Certain Open-End Management Investment Companies to Impose Deferred Sales Loads, Investment Company Act Release No. 20917 (Feb. 23, 1995) [60 FR 11890 (Mar. 2, 1995)] [hereinafter *Proposing Release*].

⁴The commenters were the American Bar Association Subcommittee on Investment Companies and Investment Advisers, the law firm of Davis Polk & Wardwell, and the Investment Company Institute ("ICI").

⁵Exemptions for Certain Registered Open-End Management Investment Companies to Impose Deferred Sales Loads, Investment Company Act Release No. 16619 (Nov. 2, 1988) [53 FR 45275 (Nov. 19, 1988)].

example, not decline to zero. The definition also includes loads paid after purchase during the term of a shareholder's investment in a fund, such as in one or more installments that may (or may not) be accelerated upon early redemption.¹⁰

Rule 6c-10 does not apply to insurance company separate accounts, which are permitted to deduct deferred loads under an existing rule,¹¹ or unit investment trusts ("UITs"). While commenters generally supported extending the rule to UITs, they identified issues related to disclosure, the method for calculating deferred sales loads and the interplay of rules 6c-10 and 11a-3 (the Investment Company Act rule governing exchanges of fund shares)¹² that are unique to UITs. The Commission will continue to study these issues, consider applications for exemptive orders¹³ and, if appropriate, propose amendments that would extend rule 6c-10 to UITs.

B. Deferred Load Calculation

Rule 6c-10 currently contains two requirements relating to the calculation of CDSLs. Under the first requirement, a CDSL must be based on the *lesser of* the NAV of the shares at the time of purchase or the NAV at the time of redemption.¹⁴ Under the second requirement, in a partial redemption, the CDSL must be calculated by treating as redeemed, *first* shares not subject to a load, and *second* other shares as if redeemed in the order they were purchased.¹⁵

The Commission is eliminating both of these requirements and deferring to the NASD to address these matters in its

Sales Charge Rule. The Commission is, however, limiting the amount of a deferred sales load to an amount not to exceed a specified percentage of the NAV of the fund's shares at the time of purchase.¹⁶ The effect of this provision would be to require that investors be given the benefit, if any, of deferring the load payment should there be an increase in the shares' NAV.

The Commission had proposed allowing a deferred load also to be based on the *higher of* the NAV at the time of purchase or at the time the load is paid.¹⁷ None of the commenters specifically addressed the *higher of* standard. Upon reconsideration of the issue, the Commission believes that allowing the *higher of* standard would be inconsistent with the intent of the proposal and the approach the Commission has taken to deferred loads generally.¹⁸ Allowing the *higher of* standard would leave investors uncertain about the amount of the deferred load they would pay and significantly reduce their ability to compare the amounts they would pay under different load structures.

Rule 6c-10, as amended, permits any deferred load in the amount not greater than a specified percentage of the NAV at the time of purchase.¹⁹ This approach is consistent with existing deferred load structures, and will permit deferred loads to be charged on the same basis as front-end loads. This approach also will assure that investors receive the benefit of any growth in the NAV subsequent to

purchasing the shares,²⁰ and facilitate investor comparisons of sales load structures. Unlike the current requirements, whereby fund underwriters bear the risk of a decrease in NAV (because the amount of the deferred load is based on the lesser of the NAV at the time of purchase or redemption), amended rule 6c-10 will permit fund underwriters to receive the amount they would have received had the sales load been charged at the time of purchase.

The amended rule does not require any particular method of collecting installment loads. Installment load payments could be collected, for example, out of distributions, by automatic redemptions, or through separate billing of an investor's account. Different methods of collecting installment load payments could result in different tax consequences for investors.²¹ The method used, and any material tax consequences of such method, must be described in the fund's prospectus.²²

C. Deferred Loads on Reinvested Distributions

Rule 6c-10 currently prohibits CDSLs to be imposed on shares purchased through the reinvestment of dividends or capital gains distributions.²³ The Commission proposed to delete this prohibition from the rule. The Commission reasoned, and the commenters agreed, that this prohibition is unnecessary so long as a fund appropriately discloses the manner in which loads are assessed and so long as mutual fund sales loads are subject to the limits in the NASD Sales Charge Rule. The prohibition has been deleted from the rule as amended.

The NASD Sales Charge Rule currently does not cover deferred loads on reinvested dividends, nor loads on reinvested capital gains distributions or

¹⁰ The NASD Sales Charge Rule currently governs only deferred loads "deducted from the proceeds of the redemption of shares by an investor." NASD Conduct Rules, Rule 2830(b)(8)(B). A deferred load paid other than upon redemption (e.g., an installment load) would fall outside the current definition and would not be covered by the Rule. Therefore, such a load could not be imposed until the NASD Sales Charge Rule is amended to cover it. The Commission staff has requested the NASD to review its Sales Charge Rule in light of the amendments to rule 6c-10.

¹¹ Rule 6c-8 under the Act [17 CFR 270.6c-8].

¹² 17 CFR 270.11a-3.

¹³ See, e.g., Merrill Lynch, Pierce, Fenner & Smith, Inc., Investment Company Act Release Nos. 13801 (Feb. 29, 1984) [49 FR 8512 (Mar. 7, 1984)] (Notice of Application) and 13848 (Mar. 27, 1984) [30 SEC Docket 192] (Order), and 15120 (May 29, 1986) [51 FR 20389 (June 4, 1986)] (Notice of Application) and 15167 (June 24, 1986) [35 SEC Docket 1735] (Order); PaineWebber, Inc., Investment Company Act Release Nos. 20755 (Dec. 6, 1994) [59 FR 64003 (Dec. 12, 1994)] (Notice of Application) and 20819 (Jan. 4, 1995) [58 SEC Docket 1504] (Order) (allowing UITs to impose deferred sales loads payable in installments).

¹⁴ Rule 6c-10(a)(1) [17 CFR 270.6c-10(a)(1)].

¹⁵ Rule 6c-10(a)(3) [17 CFR 270.6c-10(a)(3)].

¹⁶ The deferred load amount will be specified by the fund in its prospectus. See *infra* section IV.A.

¹⁷ For example, if a shareholder makes a \$1000 investment that subsequently increases in value to \$2,000 by the time the shareholder redeems his shares, a 3% deferred load based on the *higher of* standard would result in the shareholder paying a \$60 deferred load (3% of \$2,000), which is 6% of the initial \$1,000 investment.

¹⁸ See, e.g., Exemptive Relief for Separate Accounts to Impose A Deferred Sales Load on Variable Annuity Contracts Participating in Such Accounts and to Deduct from Such Contracts in Certain Instances an Annual Fee for Administrative Services That is Not Prorated, Investment Company Act Release No. 13048 (Feb. 28, 1983) [48 FR 9532, 9534 (Mar. 7, 1983)] (adopting rule 6c-8 and noting that a deferred load is intended to reimburse the same expenses as a front-end load).

¹⁹ Paragraph (a)(1) of rule 6c-10 as amended. The requirement that the deferred load amount not exceed a "specified percentage" of the NAV at the time of purchase does not mean that the load may not be based on a percentage of the NAV at the time the load is paid, even if the NAV at the time the load is paid is greater than the NAV at the time of purchase. The total amount of the load paid by an investor, however, could not exceed the amount represented by the specified percentage of the shares' offering price. Thus, if the final installment of an installment load would result in the investor paying more than the amount permitted by the rule, the amount of the final installment would have to be reduced accordingly.

²⁰ Industry representatives have suggested that the principal benefit of a deferred sales load is that it allows all of an investor's funds to "go to work" immediately rather than being deducted to pay sales charges. If the deferred sales load is based on the NAV at the time of payment, and the NAV has increased because of investment gains, any benefit that would have inured to the investor as a result of deferring the load payment would be collected by the fund's distributor when the load is paid.

²¹ Commenters have pointed out, for example, that payment through automatic redemptions would mean that a shareholder might incur a capital gain or loss on each such redemption; if additional shares then were purchased by the shareholder within 30 days of the automatic redemption, any capital loss might be disallowed under the "wash sale" rule contained in the Internal Revenue Code. See, e.g., Letter from the ICI to Jonathan G. Katz, Secretary, SEC (Jan. 9, 1989), File No. S7-8-95.

²² See *infra* section IV.A.

²³ Rule 6c-10(a)(2) [17 CFR 270.6c-10(a)(2)].

returns of capital.²⁴ Under amended rule 6c-10, therefore, deferred loads may not be imposed on shares purchased with reinvested distributions unless and until the NASD amends its Sales Charge Rule to address this issue. Should the NASD Sales Charge Rule be so amended, the prospectus disclosure requirements will require deferred sales charges on shares purchased with reinvested dividends and other distributions to be disclosed in fund prospectuses.²⁵

D. "No-Load" Labeling

The NASD Sales Charge Rule expressly prohibits NASD members and their associated persons from describing a mutual fund as "no load" or as having "no sales charge" if the fund imposes a front-end load, a back-end load, or a rule 12b-1 and/or service fee that exceeds .25% of average net assets per year.²⁶ When adopting rule 6c-10, the Commission concluded that it was unnecessary to retain the provision in the proposed rule which contained a similar "no-load" labeling prohibition for a fund whose shares are subject to a CDSL. The prohibition similarly is unnecessary for funds whose shares are subject to deferred loads other than CDSLs under today's amendments to rule 6c-10. If the NASD amends its Sales Charge Rule to permit installment loads, the Commission anticipates that the NASD would address the applicability of its "no-load" labeling policy to funds whose shares are subject to such loads. The Commission reiterates that it would be misleading and a violation of the federal securities laws for a mutual fund whose shares are subject to a deferred sales load to be held out to the public as a no-load fund.²⁷

E. Rule 11a-3

The Commission requested comment whether the definition of deferred sales load in rule 11a-3 under the Investment Company Act, governing exchanges of fund shares, should be amended to correspond expressly with the proposed definition in rule 6c-10. Commenters favored amending the definition in rule 11a-3 to avoid any confusion over the interaction of rules 6c-10 and 11a-3.

²⁴ A return of capital generally occurs when a fund's distribution exceeds the fund's aggregate amount of undistributed net taxable income and net realized capital gains. See *Determination, Disclosure, and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies*, American Institute of Certified Public Accountants, Statement of Position 93-2, 8 (Feb. 1, 1993).

²⁵ See *infra* section IV.B.

²⁶ NASD Conduct Rules, Rule 2830(d)(3).

²⁷ See Proposing Release, *supra* note , at 11893.

The Commission is adopting the conforming amendment.²⁸

IV. Discussion of Revised Disclosure Requirements

The Commission is tailoring the prospectus disclosure requirements applicable to deferred sales loads in light of the changes to rule 6c-10 discussed above. These modifications relate to the disclosure of deferred sales loads in the fee table and the example in the front of fund prospectuses. The modifications also relate to the general prospectus disclosure about the deferred load calculation and payment. Finally, the amendments address the manner in which deferred sales loads are required to be reflected in calculations of fund performance data.

A. Changes to the Fee Table and the Example

The front part of every mutual fund prospectus is required to contain a fee table—a tabular presentation of the transactional expenses paid by an investor, such as sales loads, and the annual fund operating expenses, such as management and any rule 12b-1 fees. The fee table is followed by an example that sets forth the cumulative amount of various fund expenses over one, three, five and ten year periods based on a hypothetical investment of \$1000 and an annual 5% return ("Example"). The Example was intended to provide a relatively straight-forward means for investors to compare the expense levels of funds with different fee structures over varying time periods.

The fee table requirements in Item 2 of Form N-1A, among other things, currently require a line showing the maximum sales load imposed on purchases (*i.e.*, a front-end load) and a separate line showing any deferred sales load based on the purchase price or redemption proceeds. The fee table currently does not contemplate deferred loads payable other than upon redemption (*e.g.*, in installments) and based on a share price or NAV other than that at purchase or redemption (*i.e.*, at the time an installment is paid). Similarly, Instructions to the Example currently refer only to CDSLs.

The Commission proposed to amend the deferred sales load line in the fee table so that the total installment load or the maximum contingent deferred load (expressed as a percentage) would be shown there. Specifically, the

²⁸ Paragraph (a)(3) of rule 11a-3 as amended, 17 CFR 270.11a-3. Commenters also suggested other, substantive amendments to rule 11a-3. The Commission will continue to study the issues raised by the commenters and consider them in the context of a separate proposal.

Commission proposed to replace most of the current wording inside the parentheses following the words "Deferred Sales Load" with a blank, requiring funds to insert the appropriate description of the basis on which the load is computed. The Commission is adopting this amendment.²⁹ The Commission also is amending Instruction 14(f) to Item 2 of Form N-1A to require deferred loads other than CDSLs to be reflected in the Example as well.³⁰

In addition, as suggested by a commenter, the Commission is clarifying that any deferred sales load, whether based on the offering price or on the NAV, be shown in the fee table as a percentage of the offering price. This is the same basis on which front-end loads are presented.³¹ This presentation is intended to enable investors to better compare sales loads (whether front-end or deferred), since the percentage will be based on the same amount (the offering price).

When a combination of sales loads is imposed on a fund's shares (*e.g.*, a 1% front-end and a 5% deferred load), the fee table is required to include a "Maximum Sales Load" line showing the cumulative percentage of those charges; the terms of the particular sales charges comprising that figure must be shown on separate lines underneath the "Maximum Sales Load" line. This format is designed to enable investors to better appreciate the cumulative effect of the sales charges and compare one fund's sales charges to another's. Finally, as proposed, the Commission is allowing funds to include within the larger fee table a tabular presentation of the schedule of a deferred sales load, including installment payments.³²

²⁹ The "Deferred Sales Load" line also is redesignated "Maximum Deferred Sales Load."

³⁰ Amended Instruction 14(f) to Item 2 also requires a deferred load that is calculated based on the shares' NAV at the time the load is paid to be based on an account value that incorporates the 5% annual return for each year during the period. Under amended rule 6c-10, a deferred load may be calculated based on the NAV at the time the load is paid, even if the NAV at the time the load is paid is greater than the NAV at the purchase, provided the total amount of the deferred load paid by an investor does not exceed the amount represented by the specified percentage of the offering price. See *supra* note 19.

³¹ A fund that calculates its deferred load on the basis of the NAV at the time of purchase that does not equal the offering price (*i.e.*, a fund with a front-end load), should explain in the prospectus, in response to new Item 7(g) of Form N-1A, that the load amount paid by investors is the same even though the percentage amount used in load calculations is different from that shown in the fee table.

³² As currently required by Instruction 1 to the fee table, a fund also must provide a reference following the fee table to the discussion of any scheduled sales load variations and other

With regard to loads on shares purchased with reinvested distributions, the fee table currently includes a line showing the "Maximum Sales Load on Reinvested Dividends (as a percentage of the offering price)." The current format does not contemplate deferred loads on reinvested capital gains distributions and returns of capital, nor loads based on a price other than the offering price. The Commission is modifying this line in the fee table to read "Maximum Sales Load on Reinvested Dividends [and other Distributions]" and is replacing most of the current wording in the parenthetical with a blank. A fund that charges a deferred load on shares purchased with reinvested capital gains distributions or returns of capital would include the bracketed words in the caption. Funds will fill in the blank in the parenthetical with the basis on which the load is computed. A conforming amendment is made to Instruction 14(d) regarding disclosure in the Example of deferred sales loads on shares purchased with reinvested distributions.

An illustration of fee table disclosure reflecting the amendments adopted today, and suggested calculation methodologies for the Example, appear as Appendices A and B to this Release.

B. General Prospectus Disclosure

As proposed, the Commission is amending prospectus disclosure requirements concerning the way in which a specific fund's deferred sales load is imposed and computed.³³ New Item 7(g) of Form N-1A covers many operational details that have been mandatory for all funds under current rule 6c-10 but are now subject to greater flexibility under the amendments. These details include the price on which the load is based, whether deferred sales loads may be imposed on shares acquired through reinvested distributions, and the way in which the load is calculated. In a change from the proposal, a deferred load calculated based on the offering price or the NAV at the time of purchase must be presented *both* as a percentage of the offering price and of the NAV. This disclosure will demonstrate that, although the percentage amount used in load calculation and that shown in the fee table may be different, the dollar

information about installment loads elsewhere in the prospectus.

³³ The Commission also is amending Instruction 2 to Item 5A of Form N-1A, Management's Discussion of Fund Performance, to require that deferred loads charged other than upon redemption (*i.e.*, installment loads) be reflected in the line graph showing fund performance. This change is similar to the amendment to Instruction 14(f) to Item 2 discussed in section IV.A above.

amount of the load paid by the investor is the same.

If a deferred load is charged on shares acquired through reinvested dividends or other distributions, Item 7(g) requires a statement to that effect, but it does not require this disclosure if the fund does not charge such a load. Item 7(g) also requires an explanation of the way(s) in which a shareholder may be required to pay an installment load, such as through the withholding of dividend payments, involuntary redemptions, or separate billing of an investor's account. Because different methods of collecting load payments could carry different potential tax consequences for investors, the Commission also is publishing a revision to staff Guide 30 of the Guidelines for Form N-1A to require funds to describe briefly in the prospectus any material tax consequences for investors related to an installment load.³⁴

C. Performance Data

1. Total Return

The Commission is amending Instruction 1 to Item 22(b)(i) of Form N-1A, as proposed, to require deferred sales loads to be included in calculations of advertised total return data. The amendment requires the calculation to be based on the deduction of the maximum amount of a deferred sales load at the times, in the amounts, and under the terms disclosed in the prospectus.

2. Yield

CDSLs currently are not included in advertised yield calculations. Under existing rule 482(a)(6) under the Securities Act, however, advertisements containing yield data must disclose the maximum amount of a CDSL, state that the performance figures do not reflect the load and that, if reflected, the load would reduce the quoted performance.³⁵ In addition, rule 12b-1 fees that usually accompany CDSLs are required to be included in the numerator in the yield formula in Item 22(b)(ii) of Form N-1A as expenses, and thereby reflected in the yield data. The amendments will not change the current approach with regard to CDSLs.

With regard to installment loads, the Commission requested comment on two possible approaches to including them in the yield formula. The first approach, modeled on the existing treatment of front-end loads, would require that the total installment load be added to the NAV to reach an assumed "offering price" in the denominator in the yield

formula (the "gross-up" approach). Under the second approach, a thirty-day percentage amount of an installment load would be included as an expense in calculating the yield formula (similar to the manner in which rule 12b-1 fees are treated). This method would understate the yield for those shareholders that have completed paying the installment load.³⁶

Commenters believed that installment loads should not be reflected in yield calculations, but that performance data should be accompanied by disclosure of the existence of an installment load pursuant to rule 482(a)(6) under the Securities Act. The Commission, however, has determined that installment loads should be reflected in fund yield calculations, and that the "gross-up" approach is the most appropriate way to do so. The fixed percentage amounts of installment loads, and the certainty that the load will be paid, suggest similarity to front-end loads. Installment loads also are assessed on the shareholder account level, rather than deducted from fund assets as is the case for rule 12b-1 fees. Therefore, new Instruction 10 is added to Item 22(b)(ii) of Form N-1A to require installment loads to be reflected in the yield calculations based on the gross-up approach.

D. Dealer Compensation Disclosure

Deferred sales charges are used to pay for a fund's sales or promotional expenses, including commissions to persons who sell fund shares. The amount of commissions paid from front-end sales loads and rule 12b-1 fees currently is required to be disclosed in fund prospectuses.³⁷ The Commission requested comment whether it should amend Item 7(b)(iv) of Form N-1A to require funds that impose deferred sales loads to provide disclosure about the commissions comparable to that now provided by funds with front-end loads. Alternatively, the Commission requested comment whether proposed new Item 7(g) of Form N-1A should be modified to require this disclosure.

Commenters generally opposed any changes from the current disclosure requirements for dealer compensation.

³⁶ This method also would have suggested that installment loads should be reflected in a fund's expense ratio as are rule 12b-1 fees. It is more appropriate, however, for transaction-specific expenses such as installment loads to be considered separately rather than as a component of the fund's expense structure.

³⁷ Item 7(b)(iv) of Form N-1A requires funds to show in a tabular format in the prospectus the sales load reallocated to dealers as a percentage of the public offering price. Item 7(c) requires similar disclosure for payments to dealers from rule 12b-1 fees.

³⁴ See *supra* note 21 and accompanying text.

³⁵ 17 CFR 230.482(a)(6).

They pointed out that the NASD currently is studying dealer compensation practices and that related disclosure issues would best be addressed in that context. The Commission will consider revisiting the issue of dealer compensation disclosure in fund prospectuses after the NASD has had an opportunity to complete its study and after further experience with installment loads.

V. Compliance Date

The rule and form amendments will become effective thirty days after publication in the Federal Register. Funds may begin to comply with amended rule 6c-10 on the effective date. Funds that have received exemptive orders allowing deferred sales loads may continue to rely on those orders for all the funds covered by the order.

Registration statements and post-effective amendments filed with the Commission, and yield quotations appearing in fund advertisements or other sales literature, after the effective date must be in compliance with the form amendments. Post-effective amendments made for the purpose of complying with the amendments to Form N-1A may be made pursuant to the immediate effectiveness provisions of rule 485(b) under the Securities Act [17 CFR 230.485(b)], provided the post-effective amendment otherwise meets the conditions for immediate effectiveness under that rule.

VI. Cost/Benefit Analysis

The amendments to rule 6c-10 and Form N-1A should not impose any significant burdens on mutual funds. Rather, the amendments should benefit funds by providing them with alternatives in financing their sales and promotional expenses. The amendments also will enable investors to defer the payment of a sales charge on the purchase of mutual fund shares until redemption or over one or more installment payments during the term of their investment.

VII. Summary of the Regulatory Flexibility Analysis

A summary of the Initial Regulatory Flexibility Analysis, which was prepared in accordance with 5 U.S.C. 603, was published in Investment Company Act Release No. 20917. No comments were received on that analysis. The Commission has prepared a Final Regulatory Flexibility Analysis in accordance with 5 U.S.C. 604. The Analysis explains that the amendments to rule 6c-10 allow mutual funds to impose deferred sales loads other than

CDSLs and remove certain restrictions in the rule. The Analysis further explains that the amendments to Form N-1A modify the prospectus disclosure requirements for deferred loads to reflect the changes to rule 6c-10, but provide for disclosure similar to that currently made by funds and, therefore, do not impose any additional burdens. A copy of the Analysis may be obtained by contacting Nadya B. Roytblat, Mail Stop 10-2, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

VIII. Statutory Authority

The Commission is adopting the amendments to rules 6c-10 and 11a-3 under sections 6(c), 11(a) and 38(a) of the Investment Company Act [15 U.S.C. 80a-6(c), -11(a), and -37(a)]. The authority citations for the amendments to Form N-1A precede the text of the amendments.

List of Subjects in 17 CFR Parts 239, 270 and 274

Investment companies, Reporting and recordkeeping requirements, Securities.

Text of Rule and Form Amendments

For the reasons set out in the preamble, Title 17, Chapter II of the Code of Federal Regulations is amended as follows:

PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

1. The authority citation for Part 270 continues to read, in part, as follows:

Authority: 15 U.S.C. 80a-1 *et seq.*, 80a-37, 80a-39 unless otherwise noted;

* * * * *

2. Section 270.6c-10 is revised to read as follows:

§ 270.6c-10 Exemption for certain open-end management investment companies to impose deferred sales loads.

(a) A company and any exempted person shall be exempt from the provisions of sections 2(a)(32), 2(a)(35), and 22(d) of the Act [15 U.S.C. 80a-2(a)(32), 80a-2(a)(35), and 80a-22(d), respectively] and § 270.22c-1 to the extent necessary to permit a deferred sales load to be imposed on shares issued by the company, *Provided*, that:

(1) The amount of the deferred sales load does not exceed a specified percentage of the net asset value or the offering price at the time of purchase;

(2) The terms of the deferred sales load are covered by the provisions of Rule 2830 of the Conduct Rules of the National Association of Securities Dealers, Inc.; and

(3) The same deferred sales load is imposed on all shareholders, except that scheduled variations in or elimination of a deferred sales load may be offered to a particular class of shareholders or transactions, *Provided*, that the conditions in § 270.22d-1 are satisfied. Nothing in this paragraph (a) shall prevent a company from offering to existing shareholders a new scheduled variation that would waive or reduce the amount of a deferred sales load not yet paid.

(b) For purposes of this section:

(1) *Company* means a registered open-end management investment company, other than a registered separate account, and includes a separate series of the company;

(2) *Exempted person* means any principal underwriter of, dealer in, and any other person authorized to consummate transactions in, securities issued by a company; and

(3) *Deferred sales load* means any amount properly chargeable to sales or promotional expenses that is paid by a shareholder after purchase but before or upon redemption.

3. Section 270.11a-3 is amended by revising paragraph (a)(3) to read as follows:

§ 270.11a-3 Offers of exchange by open-end investment companies other than separate accounts.

(a) * * *

(3) *Deferred sales load* means any amount properly chargeable to sales or promotional expenses that is paid by a shareholder after purchase but before or upon redemption;

* * * * *

PART 239—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

PART 274—FORMS PRESCRIBED UNDER THE INVESTMENT COMPANY ACT OF 1940

4. The authority citation for Part 239 continues to read, in part, as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77sss, 78c, 78l, 78m, 78n, 78o(d), 78w(a), 78ll(d), 79e, 79f, 79g, 79j, 79l, 79m, 79n, 79q, 79t, 80a-8, 80a-29, 80a-30 and 80a-37, unless otherwise noted.

* * * * *

5. The authority citation for Part 274 continues to read as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78c(b), 78l, 78m, 78n, 78o(d), 80a-8, 80a-24, and 80a-29, unless otherwise noted.

Note: Form N-1A does not, and the amendments will not, appear in the Code of Federal Regulations.

6. Item 2 of Part A of Form N-1A [referenced in sections 239.15A and

274.11A] is amended by revising the caption "Deferred Sales Load" and the parenthetical after such caption in paragraph (a)(i), and revising the caption "Maximum Sales Load Imposed on Reinvested Dividends" and the parenthetical in paragraph (a)(i), Instruction 5, the parenthetical in Instruction 14(d), and Instruction 14(f) to read as follows:

Form N-1A

* * * * *

Part A. Information Required in a Prospectus

* * * * *

Item 2. Synopsis

(a)(i) * * *

* * * * *

Shareholder Transaction Expenses

* * * * *

Maximum Deferred Sales Load (as a percentage of _____)%

Maximum Sales Load Imposed on Reinvested Dividends [and other Distributions] _____% (as a percentage of _____)

* * * * *

Instructions:

* * * * *

Shareholder Transaction Expenses

5. "Maximum Deferred Sales Load" includes the maximum total deferred sales load payable upon redemption, in installments, or both, expressed as a percentage of the amount or amounts stated in response to Item 7(g), *provided that* a sales load that is based on the net asset value at the time of purchase shall be expressed as a percentage of the offering price at the time of purchase. The fee table may include a tabular presentation, within the larger table, of the range over time of any deferred sales load (such as a contingent deferred sales load) that may change over time, or a schedule of any installment load payments.

If more than one type of sales load is charged (e.g., a deferred sales load and a front-end sales load), the first line in the table should read "Maximum Sales Load" and show the maximum cumulative percentage. Show the percentage amounts and the terms of each sales charge comprising that figure on separate lines just below.

If a sales charge is imposed on shares purchased with reinvested capital gains distributions or returns of capital, the third line in the table should include the bracketed words.

* * * * *

Example

14. For purposes of the Example in the table:

* * * * *

(d) * * * (A Registrant that charges a sales load on shares purchased with reinvested dividends or other distributions should not reflect these fees in the Example, but should explain in the brief narrative following the table that the Example does not reflect these

fees and that the amounts shown would be increased if the fees were reflected.)

* * * * *

(f) Reflect any contingent deferred sales load by assuming redemption of the entire account on the last day of the year; reflect any other type of deferred sales load as being paid at the end of the year in which it is due. In the case of a deferred sales load that is based on the Registrant's net asset value at the time of payment, assume that the net asset value at the end of each year includes the assumed 5% annual return for that and each preceding year.

* * * * *

7. Instruction 2 to Item 5A of Part A of Form N-1A [referenced in sections 239.15A and 274.11A] is amended by removing the phrase "(or other amounts at redemption or upon closing of an account)" in the third sentence and adding at the end a sentence to read as follows:

Form N-1A

* * * * *

Part A. Information Required in a Prospectus

* * * * *

Item 5A. Management's Discussion of Fund Performance

* * * * *

Instructions:

* * * * *

2. *Sales Load.* * * * In the case of any other deferred sales load, assume the deduction in the amount(s) and at the time(s) the load actually would have been deducted.

* * * * *

8. Item 7 of Part A of Form N-1A [referenced in sections 239.15A and 274.11A] is amended by removing the word "and" at the end of paragraph (e), removing the period at the end of paragraph (f) and adding "; and" in its place, and adding paragraph (g) to read as follows:

Form N-1A

* * * * *

Part A. Information Required in a Prospectus

* * * * *

Item 7. Purchase of Securities Being Offered

* * * * *

(g) a concise explanation of the way in which any deferred sales load is imposed and computed, including: (i) an explanation of the basis on which the specified percentage is calculated (i.e., the offering price, or the lesser of the offering price or the net asset value at the time the load is paid); (ii) the sales charges as a percentage of both the offering price and the net asset value at the time of purchase; (iii) if the method of determining the amount of the load results in the load being applied to shares or amounts representing shares acquired through the reinvestment of dividends or other distributions, a statement to that effect; (iv) a description of the way in which the load is calculated (e.g., in the case of a partial

redemption, whether or not the load is calculated as if shares or amounts representing shares not subject to a load are redeemed first, and other shares or amounts representing shares are then redeemed in the order purchased); and (v) if applicable, an explanation of the way(s) in which a shareholder may be required to pay an installment load (e.g., through the withholding of dividend payments, involuntary redemptions, separate billing of an investor's account).

9. Item 22 of Part B of Form N-1A [referenced in sections 239.15A and 274.11A] is amended by adding a sentence to the end of Instruction 1 to paragraph (b)(i) and an Instruction 10 to paragraph (b)(ii) to read as follows:

Form N-1A

* * * * *

Part B. Information Required in a Statement of Additional Information

* * * * *

Item 22. Calculation of Performance Data

* * * * *

(b) *Other Registrants*

(i) *Total Return* * * *

Instructions:

1. * * * If shareholders are charged a deferred sales load, assume the maximum deferred sales load is deducted at the times, in the amounts, and under the terms disclosed in the prospectus.

* * * * *

(ii) *Yield* * * *

Instructions:

* * * * *

10. If a Registrant (other than a Registrant described in paragraph (a)) imposes, in connection with sales of its shares, a deferred sales load payable in installments, the "maximum public offering price" shall include the aggregate amount of such installments ("installment load amount").

10. Guide 30 to Form N-1A [referenced in sections 239.15A and 274.11A] is amended by adding a paragraph before the last paragraph to read as follows:

Guidelines for Form N-1A

* * * * *

Guide 30. Tax Consequences

* * * * *

If the registrant imposes a sales load payable in installments on the securities being offered, the registrant must describe briefly in response to Item 6 any related material tax consequences for investors.

* * * * *

By the Commission.

Dated: September 9, 1996.

Margaret H. McFarland,
Deputy Secretary.

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NOTE: These Appendices to the Preamble will not appear in the Code of Federal Regulations.

Appendix A

ILLUSTRATION OF FEE TABLE AND EXAMPLE

The following illustration assumes that the fund imposes a 1% front-end sales load and a 5% installment load payable in 5 annual installments of 1% each based on the fund's offering price at the time of purchase. If shares are redeemed before all installments are paid, any remaining installments are payable at redemption. The same sales loads are imposed on reinvested dividends and capital gains distributions at the time of reinvestment.

Shareholder Transaction Expenses

Maximum Sales Load (as a percentage of offering price)	6%
paid at time of purchase	1%
paid in installments (or at redemption)	
[as follows]	5%

<u>[Year Since Purchase Made]</u>	<u>Installment Due</u>	<u>Amount Due if Shares Redeemed</u>
First	1%	5%
Second	1%	4%
Third	1%	3%
Fourth	1%	2%
Fifth	1%	1%] ¹

Maximum Sales Load Imposed on Reinvested Dividends and other Distributions 6%
(as a percentage of offering price)

Redemption Fees (as a percentage of amount redeemed) 0%

Exchange Fee 0%

Annual Fund Operating Expenses

(as a percentage of average net assets)

Management Fees	1.00%
12b-1 Fees	0.25%
Other Expenses	0.15%
Total Fund Operating Expenses	1.40%

Example

	1 year	3 years	5 years	10 years
You would pay the following expenses on a \$1000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:	\$74	\$103	\$134	\$221
You would pay the following expenses on the same investment, assuming no redemption:	\$34	\$83	\$134	\$221

The purpose of this table is to assist you in understanding the various costs and expenses of the Fund that are borne directly or indirectly by an investor. Please note that the examples are entirely hypothetical. For a more complete description of the costs and expenses, see "Sales Charges." The Example assumes that no distributions will be made and therefore does not reflect these amounts. The expenses shown in the Example would increase if the sales loads paid on shares purchased with reinvested distributions were reflected.

* * * * *

NOTE: In completing the Example to the Fee Table, the staff of the Commission encourages the use of the methodology used in the following worksheet. The worksheet should not be included in the prospectus.

¹ Optional -- Information in brackets may be provided in response to Item 7(g) elsewhere in the prospectus.

APPENDIX A CONTINUED.—EXAMPLE CALCULATIONS
 ASSUMING REDEMPTION AT THE END OF EACH TIME PERIOD

Year	Amount invested –	Front-end load=	Beginning value+(5%–1.4%)=	Ending value	Average value×1.4%=	Annual ex-penses	Deferred load @ re-demption	Annual de-ferred load installment	Amount shown in table
(1)	\$1,000.00 –	\$10.00=	\$990.00+\$35.64=	\$1,025.64	\$1,007.82	\$14.11	\$50.00	[\$10.00]	\$74
(2)			\$1,015.64+\$36.56=	\$1,052.20	\$1,033.92	\$14.47	\$40.00	[\$10.00]	.....
(3)			\$1,042.20+\$37.52=	\$1,079.72	\$1,060.96	\$14.85	\$30.00	[\$10.00]	\$103
(4)			\$1,069.72+\$38.51=	\$1,108.22	\$1,088.98	\$15.25	\$20.00	[\$10.00]	.....
(5)			\$1,098.22+\$39.54=	\$1,137.76	\$1,117.99	\$15.65	\$10.00	[\$10.00]	\$134
(6)			\$1,127.76+\$40.60=	\$1,168.36	\$1,148.06	\$16.07	.....	.....	.....
(7)			\$1,168.36+\$42.06=	\$1,210.42	\$1,189.39	\$16.65	.....	.....	.....
(8)			\$1,210.42+\$43.58=	\$1,254.00	\$1,232.21	\$17.25	.....	.....	.....
(9)			\$1,254.00+\$45.14=	\$1,299.41	\$1,276.57	\$17.87	.....	.....	.....
(10)			\$1,299.14+\$46.77=	\$1,345.91	\$1,322.52	\$18.52	.....	.....	\$221

ASSUMING NO REDEMPTION

Year	Amount invested –	Front-end load=	Beginning value+(5%–1.4%)=	Ending value	Average value×1.4%=	Annual ex-penses	Annual de-ferred load installment	Amount shown in table
(1)	\$1,000.00 –	\$10.00=	\$990.00+\$35.64=	\$1,025.64	\$1,007.82	\$14.11	\$10.00	\$34
(2)			\$1,015.64+\$36.56=	\$1,052.20	\$1,033.92	\$14.47	\$10.00	.....
(3)			\$1,042.20+\$37.52=	\$1,079.72	\$1,060.96	\$14.85	\$10.00	\$83
(4)			\$1,069.72+\$38.51=	\$1,108.22	\$1,088.98	\$15.25	\$10.00	.....
(5)			\$1,098.22+\$39.54=	\$1,137.76	\$1,117.99	\$15.65	\$10.00	\$134
(6)			\$1,127.76+\$40.60=	\$1,168.36	\$1,148.06	\$16.07	.....	.....
(7)			\$1,168.36+\$42.06=	\$1,210.42	\$1,189.39	\$16.65	.....	.....
(8)			\$1,210.42+\$43.58=	\$1,254.00	\$1,232.21	\$17.25
(9)			\$1,254.00+\$45.14=	\$1,299.14	\$1,276.57	\$17.87
(10)			\$1,299.14+\$46.77=	\$1,345.91	\$1,322.52	\$18.52	\$221

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ILLUSTRATION OF FEE TABLE AND EXAMPLE

The following illustration assumes that the fund imposes a 5% contingent deferred load based on the NAV at the time of purchase that declines to zero if shares are held for six years or longer (no front-end load is imposed). The same load is imposed on reinvested dividends (but not capital gains distributions) at the time of reinvestment.

Shareholder Transaction Expenses

Maximum Deferred Sales Load (as a percentage of offering price) 5%

<u>Year Since Purchase Made</u>	<u>Percentage</u>
---------------------------------	-------------------

First	5%
Second	4%
Third	3%
Fourth	2%
Fifth	1%
Sixth	0%] ¹

Maximum Sales Load Imposed on Reinvested Dividends 5%
(as a percentage of offering price)

Redemption Fees (as a percentage of amount redeemed) 0%

Exchange Fee 0%

Annual Fund Operating Expenses

(as a percentage of average net assets)

Management Fees 1.00%

12b-1 Fees 0.75%

Other Expenses 0.15%

Total Fund Operating Expenses 1.90%

Example

	1 year	3 years	5 years	10 years
You would pay the following expenses on a \$1000 investment, assuming (1) 5% annual return and (2) redemption at the end of each time period:	\$69	\$90	\$113	\$222
You would pay the following expenses on the same investment, assuming no redemption:	\$19	\$60	\$103	\$222

The purpose of this table is to assist you in understanding the various costs and expenses of the Fund that are borne directly or indirectly by an investor. Please note that the examples are entirely hypothetical. For a more complete description of the costs and expenses, see "Sales Charges." The Example assumes that no distributions will be made and therefore does not reflect these amounts. The expenses shown in the Example would increase if the sales loads paid on shares purchased with reinvested distributions were reflected.

* * * * *

NOTE: In completing the Example to the Fee Table the staff of the Commission encourages the use of the methodology used in the following worksheet. The worksheet should not be included in the prospectus.

APPENDIX B CONTINUED.—EXAMPLE CALCULATIONS
ASSUMING REDEMPTION AT THE END OF EACH TIME PERIOD

Year	Amount invested	Front-end load =	Beginning value+(5% – 1.9%) =	Ending value	Average value×1.9% =	Annual expenses	Deferred load	Amount shown in table
(1)	\$1,000.00 –	\$0.00=	\$1,000.00+31.00=	\$1,031.00	\$1,015.50	\$19.29	\$50.00	\$69
(2)			1,031.00+31.96=	1,062.96	1,046.98	19.89	40.00	.....
(3)			1,062.96+32.95=	1,095.91	1,079.44	20.51	30.00	90
(4)			1,095.91+33.97=	1,129.88	1,112.90	21.15	20.00	.....
(5)			1,129.88+35.03=	1,164.91	1,147.39	21.80	10.00	113
(6)			1,164.91+36.11=	1,201.02	1,182.97	22.48	.....	.....
(7)			1,201.02+37.23=	1,238.25	1,219.64	23.17	.....	.....
(8)			1,238.25+38.39=	1,276.64	1,257.44	23.89	.....	.....
(9)			1,276.64+39.58=	1,316.22	1,296.43	24.63	.....	.....
(10)			1,316.22+40.80=	1,357.02	1,336.62	25.40	.....	222

ASSUMING NO REDEMPTION

Year	Amount invested	Front-end load =	Beginning value+(5% – 1.9%) =	Ending value	Average value×1.9% =	Annual expenses	Deferred load	Amount shown in table
(1)	\$1,000.00 –	\$0.00=	\$1,000+31.00=	\$1,031.00	\$1,015.50	\$19.29	\$0.00	\$19
(2)			1,031.00+31.96=	1,062.96	1,046.98	19.89	0.00	.....
(3)			1,062.96+32.95=	1,095.91	1,079.44	20.51	0.00	60
(4)			1,095.91+33.97=	1,129.88	1,112.90	21.15	0.00	.....
(5)			1,129.88+35.03=	1,164.91	1,147.39	21.80	0.00	103
(6)			1,164.91+36.11=	1,201.02	1,182.97	22.48	0.00	.....
(7)			1,201.02+37.23=	1,238.25	1,219.64	23.17	0.00	.....
(8)			1,238.25+38.39=	1,276.64	1,257.44	23.89	0.00	.....
(9)			1,276.64+39.58=	1,316.22	1,296.43	24.63	0.00
(10)			1,316.22+40.80=	1,357.02	1,336.62	25.40	0.00	222

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