

## SECURITIES AND EXCHANGE COMMISSION

### 17 CFR Parts 239, 270, and 274

[Release Nos. 33-7143, IC-20915, File No. S7-32-93]

RIN 3235-AF00

### Exemption for Open-End Management Investment Companies Issuing Multiple Classes of Shares; Disclosure by Multiple Class and Master-Feeder Funds; Class Voting on Distribution Plans

AGENCY: Securities and Exchange Commission

ACTION: Final Rules

**SUMMARY:** The Securities and Exchange Commission is adopting a rule under the Investment Company Act of 1940 ("Investment Company Act") to permit open-end management investment companies ("mutual funds") to issue multiple classes of voting stock representing interests in the same portfolio. The new rule will eliminate the need for funds seeking to issue multiple classes of their shares to apply for exemptions. The Commission also is adopting amendments to certain registration statement forms under the Investment Company Act and the Securities Act of 1933 ("Securities Act") and publishing a staff guide to one registration form. These amendments require that multiple class and master-feeder funds provide investors with certain disclosure. The disclosure will allow investors to obtain information about these funds and their structures.

**DATES:** *Effective Date:* April 3, 1995.

*Compliance Date:* Registration statements and post-effective amendments filed with the Commission after the effective date must be in compliance with the amendments to Forms N-1A and N-14.

**FOR FURTHER INFORMATION CONTACT:** Karrie McMillan, Senior Counsel (202) 942-0695, or Robert G. Bagnall, Assistant Chief (202) 942-0686, Office of Regulatory Policy, Division of Investment Management, 450 Fifth Street, NW., Stop 10-6, Washington, D.C. 20549.

Requests for formal interpretive advice should be directed to the Office of Chief Counsel (202) 942-0659, Division of Investment Management, 450 Fifth Street, N.W., Washington, D.C. 20549.

**SUPPLEMENTARY INFORMATION:** The Commission is today adopting rule 18f-3 [17 CFR 270.18f-3] and a related amendment to rule 12b-1 [17 CFR 270.12b-1], both under the Investment

Company Act. The Commission is also adopting amendments to Forms N-1A [17 CFR 239.15A, 274.11A] and N-14 [17 CFR 239.23].

Most multiple class funds have also obtained exemptive relief to impose contingent deferred sales loads ("CDSLs"). In separate releases, the Commission also is adopting rule 6c-10 [17 CFR 270.6c-10] under the Investment Company Act, to allow mutual funds to impose CDSLs, and proposing to amend the rule to permit other forms of deferred loads, such as installment loads, and to remove many of the requirements of the rule as adopted.<sup>1</sup>

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#### Executive Summary

Since 1985, the Commission has issued approximately 200 exemptive orders allowing funds to issue multiple classes of shares representing interests in the same portfolio, typically with different distribution arrangements. The orders frequently impose as many as 20 conditions designed to address various investor protection concerns.

The Commission is adopting rule 18f-3 under the Investment Company Act,

<sup>1</sup> Exemption for Certain Open-End Management Investment Companies to Impose Contingent Deferred Sales Loads, Investment Company Act Release No. 20916 (Feb. 23, 1995); Exemption for Certain Open-End Management Investment Companies to Impose Deferred Sales Loads, Investment Company Act Release No. 20917 (Feb. 23, 1995).

which will permit funds to issue multiple classes of shares without the need to seek exemptions from the Commission. The rule will decrease the amount of time and expense involved in creating these structures. It also will reduce the Commission's burden of reviewing the applications. The rule requires certain differences in the expenses, rights, and obligations of different classes, permits certain other differences among classes, specifies the matters on which class voting is required, and prescribes how income and expenses must be allocated. The rule also emphasizes the responsibilities of the board of directors to establish and monitor allocation and other procedures in the best interests of each class and of the fund as a whole. Finally, the rule permits, but does not require, different classes to have different exchange privileges and conversion rights. A related amendment to rule 12b-1 clarifies that a rule 12b-1 plan must have separate provisions for each class; any action on the plan, such as director or shareholder approval, must take place separately for each class.

Over the past few years, many fund sponsors have adopted another distribution arrangement designed to achieve many of the same business goals as the multiple class structure without the need to obtain exemptions under section 18. This "master-feeder" arrangement comprises a two-tier structure in which one or more funds (the upper tier) invest solely in the securities of another fund (the lower tier).<sup>2</sup> Although master-feeder structures are functionally similar to multiple class funds, they are viewed as not needing exemptions and have been subject to different disclosure requirements.

The disclosure requirements adopted today apply equally to multiple class and master-feeder funds, and are similar to those currently in effect for master-feeder funds. A prospectus for a class or feeder fund will be required to include disclosure about other publicly offered classes or feeder funds not offered through the prospectus and a telephone number an investor may call to receive additional information about other classes or feeder funds sold by the same bank, broker, or other financial intermediary. In view of commenters' concerns, the Commission is not adopting the more extensive disclosure requirements originally proposed. The provisions as adopted are consistent

<sup>2</sup> Master-feeder funds are often referred to as "core and feeder" or "hub and spoke" funds. Signature Financial Group is the originator and patent licensor of the Hub and Spoke® form of the master-feeder structure.