rather than 1% a year for six years). Like the 1988 proposal, the proposed amendments would permit a fund to include within the larger fee table a tabular presentation of the schedule of installment payments.³⁶

B. General Prospectus Disclosure

The Commission is proposing to require more detailed prospectus disclosure concerning the way in which a specific fund's deferred sales load is imposed and computed. Proposed new Item 7(g) would cover many operational details that have been mandatory for all funds under rule 6c-10 as adopted and as originally proposed but would be subject to greater flexibility under the proposed amendments. These details include the price on which the load is based, whether deferred sales loads may be imposed on shares acquired through reinvestments of distributions, and the way in which the load is calculated.37 If a fund charges deferred loads on shares from reinvestment of dividends or other distributions, Item 7(g) would require a statement to that effect, but it would not require this disclosure if the fund did not charge such a load. In addition, as a general matter, to the extent that a fund's sales charges do not differ from those of other funds, the disclosure in response to proposed new Item 7(g) should be relatively brief, but to the extent that the fund's charges differ, more detail may be required.38

The proposed provision also would require an explanation of the ways 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. The Commission also is publishing for comment a revision to staff Guide 30 of the Guidelines for Form N–1A to require funds to describe briefly in the prospectus any tax consequences for investors related to an installment load.³⁹

C. Performance Data

The Commission is proposing to amend Instruction 1 to Item 22(b)(i) of Form N–1A to require deferred sales loads to be included in calculations of advertised total return data. The amendment would require 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.

The Commission is not proposing to amend Item 22(b)(ii) of Form N-1A to require installment loads to be included in advertised yield calculations. Paragraph (a)(6) of rule 482 under the Securities Act⁴⁰ requires advertisements containing yield data to disclose the maximum amount of any sales load; if the sales load is not reflected in performance figures, the advertisement also must disclose that the figures do not reflect the load and that, if reflected, the load would reduce the quoted performance. Because installment loads would not be reflected in yield figures, rule 482(a)(6) would apply to advertisements containing yield figures of funds with installment loads.41

The treatment of installment loads in advertised yield calculations would be different from the current treatment of rule 12b-1 fees, which are 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. Therefore, for example, a fund with a rule 12b-1 fee of 1% would show a lower yield than a fund with comparable performance and an installment load of 1% per year for six years. The Commission requests comment on whether it should require a thirty-day percentage amount of an installment load similarly to be included as an expense in the numerator in the yield formula in Item 22(b)(ii), or, alternatively, require that the installment load be added to the net asset value to reach an assumed "offering price" in the denominator in the yield formula. The first alternative would allow greater comparability to rule 12b-1 fees, but would understate the yield for those shareholders that have completed paying the installment load. The second alternative would treat installment loads as if they were frontend loads.

D. Dealer Compensation

The amount of commissions paid to persons selling funds' shares currently is not required to be disclosed in prospectuses, except in the case of frontend sales loads. Item 7(b)(iv) of Form N-1A requires funds to show in a tabular format in the prospectus the sales load reallowed to dealers as a percentage of the public offering price. This requirement currently is deemed to apply only to front-end sales loads. The Commission requests comment on whether it should amend Item 7(b)(iv) to require mutual funds that impose deferred sales loads to provide disclosure about the commissions received by dealers selling the funds' shares comparable to that now provided by funds with front-end loads. Alternately, the Commission requests comment on whether proposed new Item 7(g) should be modified to require such disclosure.

IV. Cost/Benefit Analysis

The proposed amendments to rule 6c-10 and Form N–1A would 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 would 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.

V. Summary Of the Regulatory Flexibility Analysis

The Commission has prepared an Initial Regulatory Flexibility Analysis. The Analysis explains that the proposed amendments to rule 6c-10 would allow mutual funds to impose deferred sales loads other than CDSLs and would remove certain restrictions in the rule. The Analysis further explains that the proposed amendments to Form N-1A would set prospectus disclosure requirements for deferred loads that reflect the proposed changes to rule 6c-10, but that are similar to the disclosure currently provided by funds and that would not impose any additional burdens. A copy of the Analysis may be obtained by contacting Nadya B. Roytblat, Esq., Mail Stop 10-6, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

³⁶ As currently required by Instruction 1 to the fee table, a fund also would have to provide a reference following the fee table to the discussion of any scheduled variations and other information about installment loads elsewhere in the prospectus.

³⁷ As noted above, paragraphs (a)(1), (a)(5) and (a)(6) of rule 6c-10 as originally proposed required a load paid at redemption to be based on the lower of the NAV at the time of purchase or redemption; specified the order in which shares should be treated as being redeemed for purposes of load calculation; and prohibited the imposition of deferred loads on reinvested dividends and capital gains distributions.

³⁸ The General Instructions to Form N–1A emphasize the importance of brevity in describing practices "that do not differ materially from those of other investment companies." General Instruction G (Preparation of the Registration Statement or Amendment), Part A, Instruction 1.

³⁹ See, e.g., supra note 17 (describing potential tax complications suggested by commenters on the original proposal).

^{40 17} CFR 230.482.

⁴¹ A fund's yield advertisement would disclose the amount of an installment load, and the period of time during which a shareholder is subject to the installment load.