

March 17, 2003

Dear [Survey Contact or Executive Representative]:

Re: NASD Member Firm Mutual Fund Breakpoint Assessment

As detailed in the *Joint SEC/NASD/NYSE Report of Examinations of Broker-Dealers Regarding Discounts on Front-End Sales Charges on Mutual Funds* (available at http://www.nasdr.com/pdf-text/bp_joint_exam.pdf), in a recent series of examinations, regulators found errors in the calculation of sales loads on Class A mutual fund shares at virtually all of the firms examined. As a result, NASD is requiring certain member firms that sold front-end load mutual funds in the last two years to conduct a self-assessment of breakpoint compliance and to report the results to NASD. Member firms with a minimal number of customer purchases of front-end load Class "A" shares will, however, only be required to follow a few steps to determine whether they may be excluded from conducting the assessment.

Member firms that had more than a *de minimis* number of mutual fund transactions in Class A shares during the period beginning January 1, 2001 through December 31, 2002 will follow a standard sampling methodology provided by NASD. Results will be entered on Web-based forms that will be accessible through your firm's CRD number and individualized PIN number:

Firm Name: <firm name>
CRD# (ID): <CRD#>
PIN: <PIN>

Self-assessment instructions detailing the manner in which firms are required to conduct and report the results of the assessment are also accessible via the NASD Breakpoint Web Page at:
http://www.nasdr.com/breakpoints_assessment.asp

NASD recognizes that the effort required by members to complete the assessment process may be substantial. Nonetheless, these reviews are necessary given the extent to which the examinations already conducted show that public customers did not receive the benefit of appropriate breakpoints and sales load discounts. NASD trusts and expects that member firms will conduct the assessment in a conscientious and thorough manner, and will devote all necessary resources to accomplishing it. Although the assessment protocol is designed to be as easy to use as possible, it may take a substantial effort on your firm's part to complete. In this regard, it is important that your firm begin working on the self-assessment as soon as possible to ensure that the due date of May 15, 2003 is met.

As detailed in the assessment, all supporting records and documents prepared or collected in connection with the assessment must be retained by your firm. Specifically, your firm must retain documentation that will fully evidence the process you used to conduct the standardized assessment. After the results of member assessments have been submitted to NASD, audits will be conducted of member firms to confirm that the assessment methodology was followed.

It is likely that further actions will be required to ensure that investors are made whole for front-end sales load discounts offered to them. The scope and nature of appropriate remedial and disciplinary actions will be based upon the findings of the assessment process.

Your firm's response must be submitted to NASD by May 15, 2003.

We will answer questions about the assessment through a toll-free number established by NASD. That number, (800) 334-0668, will prompt callers to select options regarding the sampling methodology, PIN numbers, access to and use of Web-based forms, and general questions. NASD will also establish a questions and answers resource on its Web Site to address frequently asked questions.

The request contained in this letter is made pursuant to NASD Rule 8210.

Very truly yours,

Robert C. Errico
Executive Vice President
NASD, Member Regulation