

MEMO# 4197

October 21, 1992

SEC HYBRID FUNDS PROPOSALS

October 21, 1992 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 41-92 INDEPENDENT ACCOUNTANTS ADVISORY GROUP RE: SEC HYBRID FUNDS PROPOSALS

The Securities and Exchange Commission has proposed the creation of three new types of funds: a. Closed-end funds which could offer to repurchase no less than 5% or more than 25% of their outstanding shares on a periodic basis (e.g., quarterly, annually), b. Open-end funds which could offer redemptions at periodic intervals ("Interval Funds"). These funds would be able to take up to one month (31 days) to pay redemption proceeds, and c. Open-end funds which could extend the payment of redemption proceeds for up to 31 days after receipt of the redemption request ("Extended Payment Funds"). These proposals are summarized in the enclosed SEC Rules Committee Memo No. 52-92, dated August 3, 1992. Attached to the August 3 memo is SEC Release No. 33-6948 which proposes rules and rule amendments necessary for the creation of these funds. The Institute has received extensive input on these proposals from a legal perspective from an ad hoc group of representatives of the Institute's SEC Rules Committee and Closed-End Fund Committee. This group has voted in favor of both the closed-end fund proposal and the interval fund proposal and against the extended payment fund proposal. (See enclosed extract of memo dated September 24, 1992 for details.) Additionally, a small ad hoc group consisting of representatives from the Institute's Operations Committee and Rich Silver and Steve Kearsley of the Accounting/Treasurers Committee met last week to discuss potential operational and mutual fund accounting issues. It was determined that a more in-depth review of the proposals' operational implications should be performed by the Institute's Transfer Agent Advisory Committee members, which is currently underway. -2- While it was preliminarily concluded that the creation of these new fund products does not appear to present any difficult implementation issues from a fund accounting perspective, we would like your input regarding any potentially serious implementation problems. Please provide me with any comments you may have either by telephone (202/955-3583) or by fax (202/293-1058) by Monday, November 2, 1992. We will discuss the hybrid funds proposals and any accounting issues identified at the Accounting/Treasurers Committee meeting on Wednesday, November 4, 1992. Thank you for your assistance. Kathleen C. Joaquin Director - Operations/ Fund Accounting Enclosures

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