

MEMO# 2817

June 4, 1991

SEC RELEASE ADOPTING EXCLUSION FOR TAX-EXEMPT MONEY MARKET FUNDS FROM BOARD RATIFICATION REQUIREMENT

June 4, 1991 TO: SEC RULES MEMBERS NO. 35-91 MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 14-91 MONEY MARKET FUNDS AD HOC COMMITTEE NO. 13-91 RE: SEC RELEASE ADOPTING EXCLUSION FOR TAX-EXEMPT MONEY MARKET FUNDS FROM BOARD RATIFICATION REQUIREMENT _____ As we recently informed you, the SEC, in response to concerns raised by the Institute, adopted an amendment to Rule 2a-7 to exclude tax-exempt money market funds from the requirement that the board of directors approve or ratify the acquisition of any security that is unrated, or is rated by only one rating agency. (See Memorandum to Money Market Funds - One Per Complex No. 13-91 and Money Market Funds Ad Hoc Committee No. 12-91, dated May 31, 1991.) Attached is a copy of the SEC's release. The Institute supported the proposal to exclude tax-exempt money market funds from the board ratification requirement, and recommended that taxable money market funds also be excluded. The Institute commented that while the requirement would be less burdensome for taxable funds than tax-exempt funds because of the significantly smaller number of single-rated and unrated securities purchased by taxable funds, it is fundamentally inappropriate since it would require the board to perform credit analysis. Thus, the requirement should be repealed for taxable funds as well as tax-exempt funds. The SEC stated in the attached release that it is sensitive to the concerns raised in the Institute's comment letter, but has decided not to eliminate the requirement for taxable funds at this time. However, the SEC stated that it is interested in receiving comment from funds on their experiences with the requirement and would consider amending it if it proves to be unduly burdensome. In addition, the SEC requested comment on the policy implications of the ratification requirement. We will keep you informed of developments. Amy B.R. Lancellotta Assistant General Counsel Attachment