

**MEMO# 16400**

August 1, 2003

## **ICI DRAFT LETTER IN SUPPORT OF RULEMAKING PETITION RELATING TO TREATMENT OF MONEY MARKET FUNDS UNDER EXCHANGE ACT RULES**

[16400] August 1, 2003 TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 13-03 RE: ICI DRAFT LETTER IN SUPPORT OF RULEMAKING PETITION RELATING TO TREATMENT OF MONEY MARKET FUNDS UNDER EXCHANGE ACT RULES The Investment Company Institute has prepared a draft letter in support of the rulemaking petition submitted on behalf of Federated Investors, Inc. to the Securities and Exchange Commission seeking amendments to Rules 15c3-1 and 15c3-3 under the Securities Exchange Act of 1934.<sup>1</sup> Specifically, the proposed amendments would accord to a broker-dealer's investments in shares of money market funds that invest exclusively in U.S. Treasury bills and notes and meet certain other criteria ("Designated Funds") the same treatment with respect to net capital, customer collateral, and special reserve accounts that these rules accord to direct investments in U.S. Government or agency securities having maturities of less than three months ("Qualifying Government Securities").<sup>2</sup> A copy of the draft letter is attached, and it is summarized below. Please provide your comments on the draft letter to Barry Simmons at (202) 326-5923 (phone), (202) 326-5827 (fax), or at [bsimmons@ici.org](mailto:bsimmons@ici.org) (email), or Amy Lancellotta at (202) 326- 5824 (phone), at (202) 326-5827 (fax), or at [amy@ici.org](mailto:amy@ici.org) (email) by Friday, August 22, 2003. The Institute's letter supports the Petition and agrees that investments in Designated Funds should serve as the functional equivalent of investments in Qualifying Government Securities. The letter recommends, however, that the permitted investments for Designated Funds should include not only U.S. Treasury bills and notes, but also repurchase agreements that themselves are collateralized fully by U.S. Treasury bills and notes. The letter explains that money market funds that invest in Treasury security-collateralized repurchase agreements are subject to the same regulatory requirements, and have the same unblemished record of safety. <sup>1</sup> See Letter from Dechert LLP, on behalf of Federated Investors, Inc., to Jonathan G. Katz, Secretary, Securities and Exchange Commission, dated April 3, 2003 (the "Petition"). The Petition is available from the SEC's website at <http://www.sec.gov/rules/petitions/petn4-478.htm>. <sup>2</sup> In particular, the Petition would amend Rule 15c3-1 to provide the same net capital treatment to broker-dealers' investment in shares of the Designated Funds as is currently available to Qualifying Government Securities. The Petition also would amend Rule 15c3-3 to: (a) provide the same collateral treatment to Designated Fund shares as is provided to cash, U.S. Treasury bills and notes, irrevocable letters of credit issued by banks, and such other collateral as the Commission designates by order; and (b) treat such shares as "qualified securities" that may be deposited into a broker-dealer's Special Reserve Bank Account for the Exclusive

Benefit of Customers. 2 and stability as money market funds that make only direct investments in those Treasury securities. The letter also emphasizes that repurchase agreements are recognized by the Commission as having substantially the same safety and investment quality characteristics as the underlying securities to which they relate. Finally, the letter points out that other regulators that have accorded investments in money market funds equivalent treatment to that of direct investments in U.S. government securities have not distinguished between funds that make only direct investments in government securities and those that also invest in repurchase agreements that are fully collateralized by those government securities, adding that, in fact, some regulators specifically recognize repurchase agreements as themselves being the equivalent of direct investments. Barry E. Simmons Associate Counsel Attachment (in .pdf format)

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