

MEMO# 5539

February 2, 1994

INSTITUTE LETTERS TO BANKING AGENCIES ON INCONSISTENT DISCLOSURE REQUIREMENTS FOR MONEY MARKET FUNDS

1 See Memorandum to Board of Governors No. 96-93, Bank Investment Management Members No. 25-93, and Task Force on Bank Sales Activities, dated October 25, 1993 [FDIC]; Memorandum to Board of Governors No. 79-93, Bank Investment Management Members No. 22-93, and Task Force on Bank Sales Activities, dated September 15, 1993 [OTS]; Memorandum to Board of Governors No. 62-93, Bank Investment Management Members No. 15-93, Task Force on Bank Sales Activities, dated July 19, 1993 [OCC]; Memorandum to Bank Investment Management Members No. 13-93 and Board of Governors No. 57-93, dated June 25, 1993 [Federal Reserve]. February 2, 1994 TO: BANK INVESTMENT MANAGEMENT MEMBERS NO. 8-94 BOARD OF GOVERNORS NO. 12-94 TASK FORCE ON BANK SALES ACTIVITIES RE: INSTITUTE LETTERS TO BANKING AGENCIES ON INCONSISTENT DISCLOSURE REQUIREMENTS FOR MONEY MARKET FUNDS

The Institute recently has corresponded with the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Office of the Comptroller of the Currency and the Federal Reserve Board regarding the regulatory guidelines they have issued on bank sales of mutual funds.¹ In the letters, the Institute urged these agencies to resolve inconsistencies between the disclosure language they would apply to money market funds and that which is required by the Securities and Exchange Commission. Copies of the Institute's letter to Comptroller of the Currency Ludwig and letters to the chief legal officers of the four agencies are attached. In general, the four banking agencies require disclosures to the effect that mutual funds involve investment risks, including the risk of loss of principal. The Institute's letters point out the inconsistency between these required disclosures and the SEC's standard money market fund disclosure that "there can be no assurance that the fund will be able to maintain a stable net asset value of \$1.00 per share." The letters note that the SEC disclosure language accomplishes substantially the same purpose as that of the banking agencies; but is tailored more precisely to the characteristics of money market funds. The letters accordingly urge the banking agencies to clarify that money market fund advertisements and prospectuses containing the disclosure mandated under the federal securities laws will satisfy relevant requirements in the banking agencies' regulatory statements. The letters also suggest, as an alternative, that the banking agencies consult and coordinate with the SEC and the NASD on some single disclosure format. The letters conclude, "Either approach would be distinctly preferable to the current situation." Although the Institute's letters principally address the differences between the disclosure

requirements of the SEC and those of the banking agencies, they also note that significant inconsistencies among the guidelines of the different banking agencies will make investor protection more difficult to achieve. The Institute accordingly has been urging the banking agencies to develop a single set of guidelines (in conjunction with the SEC), and we understand that they are currently seeking to coordinate their efforts in this regard. We will keep you informed of future developments. Paul Schott Stevens General Counsel
Attachments

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