

**MEMO# 8553**

January 15, 1997

## **INSTITUTE DRAFT COMMENT LETTER ON PROPOSED AMENDMENTS TO RULE 2A-7**

1 See Memorandum to Money Market Funds Advisory Committee No. 13-96 and SEC Rules Committee No. 129-96, dated December 12, 1996. January 15, 1997 TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 1-97 SEC RULES COMMITTEE No. 5-97 RE: INSTITUTE DRAFT COMMENT LETTER ON PROPOSED AMENDMENTS TO RULE 2a-7

As we previously informed you, the Securities and Exchange Commission has proposed technical amendments to Rule 2a-7 under the Investment Company Act of 1940 and several amendments to the advertising rules applicable to money market funds.<sup>1</sup> A meeting of members was held on January 8, 1997 to discuss these proposals. Attached is a draft letter on the proposed amendments, which reflects a consensus of the attendees at that meeting. The draft letter generally supports the proposed amendments to Rule 2a-7, but suggests minor revisions to several of the proposals. In addition, the letter recommends minor modifications to several provisions of the rule that were not covered by the proposed amendments. One issue on which the Commission specifically requested comment regards a money market funds investment in asset backed securities (ABSs). The letter addresses three issues dealing ABSs. First, the letter recommends that the Commission clarify the diversification requirements for ABSs that hold other ABSs. Second, the letter recommends that there be an overall cap of 10% on obligations of a special purpose entity that a fund holds directly and/or indirectly (i.e., secondary ABSs of special purpose entities that are ten percent obligors). Third, with respect to the treatment of swaps under Rule 2a-7, the Institute recommends that a fund be permitted to treat the swap counterparty as the issuer and that the five percent issuer diversification requirement apply to these instruments. Given the complexity of the treatment of ABSs under Rule 2a-7, we request that members pay particular attention to this section of the letter (see pp. 3-6). With respect to the proposed amendments to the advertising rules applicable to money market funds, the letter supports the proposed clarification that income included in money market fund yield be limited to investment income and the proposed requirement that current yield accompany total return quotations. The letter, however, opposes the requirement that total return cover a period of at least one year. Instead, it recommends that funds be permitted to use total return covering a shorter period, so long as it is accompanied by a one-year total return figure and the funds current yield. In addition, we recommend that a fund whose registration statement has been in effect for less than one-year be permitted to show total return covering that period and that it be accompanied by a quotation of current yield. Comments are due to the SEC on the proposed amendments by January 24, 1997. Therefore, please provide the undersigned with your comments by Tuesday, January 21, 1997. My direct number is 202/326-5824, the fax number is 202/326-5827 and my e-mail address is amy@ici.com. Amy B.R. Lancellotta Associate Counsel Attachment (in .pdf

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