

MEMO# 2588

March 6, 1991

DRAFT LETTER ON TAX-EXEMPT PROPOSAL

March 6, 1991 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 7-91 RE: DRAFT LETTER ON TAX-EXEMPT PROPOSAL

Attached for your review is a draft letter to the SEC staff on the Committee's proposals relating to tax-exempt money market funds. The draft letter reflects the proposals that were approved by the Committee at the meeting on February 28, except for the change discussed below. The proposal concerning split-rated securities has been modified slightly from what was approved at the meeting. Under that proposal, a split-rated security would have automatically been treated as having the higher rating, provided that at least 50% of the agencies rating that security assigned it the highest rating. Instead, the letter recommends that Rule 2a-7 be modified to permit the adviser to determine that such a security be treated as being of the same quality as the higher rating, provided that at least 50% of the agencies rating that security have assigned it the higher rating (see pp. 4-5). We believe that by requiring the adviser to evaluate the security instead of automatically treating it as a first tier security would make our recommendation for modifying the treatment of split-rated securities more acceptable to the SEC. Please review this letter with your portfolio managers and provide me with your comments by March 19, 1991. Amy B.R. Lancellotta Assistant General Counsel Attachment

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