

MEMO# 8888

May 14, 1997

INSTITUTE DRAFT LETTER ON INVESTMENT COMPANY NAME RULE AND PROPOSED DURATION CALCULATION

May 14, 1997 TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 20-97 UNIT
INVESTMENT TRUST COMMITTEE No. 29-97 DURATION TASK FORCE RE: INSTITUTE DRAFT
LETTER ON INVESTMENT COMPANY NAME RULE AND PROPOSED DURATION CALCULATION

Attached for your review is a draft of the Institutes comment letter on proposed Rule 35d-1 under the Investment Company Act, addressing investment company names, and a draft proposed methodology for calculating portfolio duration for certain bond funds. The letter reflects a consensus of the attendees at a meeting held on April 9 to discuss the proposal. In the draft letter, we have highlighted several issues on which we are specifically seeking members input. The draft letter expresses general support for the Commissions proposal to require investment companies with names that suggest they focus on a particular type of investment to invest at least 80% of their net assets in the type of investment suggested by their names. The Institutes support, however, is conditioned upon the proposal being revised in the following respects: (1) to eliminate the requirement that investment companies adopt the investment requirement as a fundamental policy; (2) to provide an exception from the requirement to allow for the orderly investment of incoming cash and to meet anticipated redemption requests; and (3) to base the test only on an investment companys net assets, rather than on net assets plus certain borrowings as proposed. The draft letter also expresses support for requiring investment companies that hold themselves out as having a stated maturity policy to have a commensurate duration policy. Attached as an appendix to the letter are draft recommendations for calculating duration for this purpose. The appendix reflects the preliminary recommendations of the Institutes Duration Task Force that were submitted to the SEC staff last December. Comments on proposed Rule 35d-1 are due to the SEC by June 9, 1997. Please provide me with your comments on the letter by May 22, 1997 and on the proposed duration methodology by May 27, 1997. My direct number is 202/326-5824, my e-mail address is amy@ici.org and the fax number is 202/326-5827. Amy B.R. Lancellotta Associate Counsel Attachment