

MEMO# 4130

September 28, 1992

INSTITUTE ALERTS NASAA ON IMPACT OF STATE INVESTMENT RESTRICTIONS ON PROPOSED HYBRID FUNDS

September 28, 1992 TO: SEC RULES COMMITTEE NO. 73-92 CLOSED-END FUND COMMITTEE
NO. 22-92 STATE LIAISON COMMITTEE NO. 37-92 RE: INSTITUTE ALERTS NASAA ON IMPACT
OF STATE INVESTMENT RESTRICTIONS ON PROPOSED HYBRID FUNDS

As you know, the Securities and Exchange Commission proposed for comment rules and rule amendments to create procedures for the repurchase and redemption of shares of closed-end and open-end funds on a periodic basis. Included in the proposal are provisions creating two new types of open-end funds which will permit these funds to offer redeemable securities while investing in less liquid assets that do not currently meet the federal liquidity standard. Also included is a proposal to allow closed-end funds to make periodic repurchases of their securities. (See Memorandum to SEC Rules Committee No. 52-92 and Closed-End Fund Committee No. 13-92, dated August 3, 1992.) The Institute contacted, and submitted the attached letter to, the President of the North American Securities Administrators Association ("NASAA") regarding the impact continued application of the Central Securities Administrators Council Statement of Policy on Open-End Investment Companies and Closed-End Investment Companies would have on the sale of these new types of funds. In essence, if state restrictions limiting the investment in restricted and/or illiquid securities by open-end funds, and perhaps closed-end funds, are not also amended to accommodate a greater degree of investing in illiquid assets, it is likely that these new types of funds may not be permitted to be sold in certain states (e.g., Arkansas, Ohio, Wisconsin, Texas). The Institute will be meeting with various representatives of NASAA and the individual states to resolve the potential impact application of the state investment restrictions would have on the ability of fund sponsors to offer hybrid funds. We will keep you advised of developments. Patricia Louie Assistant Counsel Attachment