

MEMO# 2269

October 17, 1990

SEC INSPECTIONS OF MONEY MARKET FUNDS

October 17, 1990 TO: MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 14-90 RE: SEC INSPECTIONS OF MONEY MARKET FUNDS

_____ This is to inform you that at a recent conference, Gene Gohlke, Acting Director of the SEC's Division of Investment Management, announced that the Division would be inspecting all money market funds between October 1990 and September 1991. The staff will be inspecting primarily for compliance with Rule 2a-7, particularly focusing on the procedures used to determine the creditworthiness of portfolio securities and compliance with the quality standards under the rule. It is our understanding that if a deficiency is found, the staff will send a letter directly to the board of directors in light of their responsibilities under Rule 2a-7 to ensure that proper procedures concerning creditworthiness are in place. In addition, the staff will be inspecting for "window dressing" activities. The staff is concerned that money market funds are replacing their lower rated portfolio securities with higher rated securities before a public reporting period ends. The staff indicated that this could misrepresent the quality of a fund's portfolio and could be the basis for an enforcement action. Amy B. Rosenblum
Assistant General Counsel

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