MEMO# 2300

October 30, 1990

NOVEMBER 12 MEETING TO DISCUSS TAX-EXEMPT MONEY MARKET FUNDS

October 30, 1990 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 1-90 RE: NOVEMBER 12 MEETING TO DISCUSS TAX-EXEMPT MONEY MARKET FUNDS ____ The Institute has scheduled a meeting for Monday, November 12 to discuss recommendations to the SEC for the regulation of tax-exempt money market funds. Set forth below is an outline of a proposal, which was developed by the Institute and several members of the Committee. The proposal is intended to be simpler and more straightforward than the one developed at the previous meeting of the Committee. It should be noted that not all of the members of the Committee that developed this proposal endorse all of its aspects. Summary of Proposal A. National Tax-Exempt Funds 1. Diversity - Require that a fund invest no more than 5% of its assets in securities of any one issuer and no more than 10% of its assets in securities subject to a guarantee issued by any one institution. (This would be the same standard as that under our proposal to the SEC for taxable funds.) 2. Quality a. Unrated Securities - Allow a fund to start with a 5% basket of unrated securities (using the same definition of "unrated securities" that was used in connection with taxable funds) and require that it phase out its holdings in unrated securities over a one year period. (After the phase out, the standard would be identical to our taxable fund proposal.) b. Securities Not Receiving the Highest Rating - Restrict fund investment in securities not receiving the highest rating to 10% of the fund's assets and up to 3% per issuer. (These limits are the same as those applicable to split-rated securities under our taxable fund proposal.) c. Split-Rated Securities - No limit should be imposed on the amount of split-rated securities that a fund may purchase provided that at least one of the ratings is the highest. B. Single State Funds 1. Use of Words "Single State" - Require a state specific fund to disclose on the cover page of its prospectus and in advertisements and sales literature that it is a "single state" fund and that there may be certain risks as a result of concentrating in securities issued by issuers domiciled in only one state. In addition, disclosure would be required in the prospectus concerning diversification depending on whether the fund was 5% diversified with respect to 100% of its assets, 5% diversified with respect to 75% of its assets or non-diversified (as defined under Section 5 of the 1940 Act). 2. Quality a. Two alternatives were proposed: i. Under the first proposal, unrated securities would initially be subject to a 10% basket, which would be phased out over two years. Securities not having the highest rating would be subject to the 10%/3% limit proposed for national funds. (Thus, after the phase out, single state funds would be subject to the same quality standards as national tax exempt funds.) ii. Under the second alternative, there would be a permanent 25% basket made up of both unrated securities and securities not having received the highest rating. C. Opinions Concerning Tax-Exempt Status In addition to submitting proposals for tax-exempt funds, consider submitting a letter to the SEC recommending that it issue a release requiring that funds only buy tax-exempt securities that have received an unqualified opinion of counsel as to their tax-exempt status. * * * * The meeting will be held at the Institute and will begin at 1:00 p.m. (Lunch will be served at 12:00 noon prior to the meeting.) If you plan to attend, please call Michele Dugue at 202/955-3515. Craig S. Tyle Associate General Counsel

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