

MEMO# 2931

July 12, 1991

INSTITUTE URGES SEC TO EXEMPT TAXABLE MONEY MARKET FUNDS FROM BOARD RATIFICATION REQUIREMENT

July 12, 1991 TO: SEC RULES COMMITTEE NO. 39-91 MONEY MARKET FUNDS AD HOC
COMMITTEE NO. 19-91 RE: INSTITUTE URGES SEC TO EXEMPT TAXABLE MONEY MARKET
FUNDS FROM BOARD RATIFICATION REQUIREMENT

As we recently informed you, when the SEC amended Rule 2a-7 to exclude tax-exempt money market funds from the requirement that the board of directors approve or ratify the acquisition of any security that is unrated or single-rated, it solicited comments on the practical and policy implications of the requirement on taxable funds. (See Memorandum to SEC Rules Members No. 35-91 and Money Market Funds Ad Hoc Committee No. 13- 91, dated June 4, 1991.) In response, the Institute submitted the attached letter urging the SEC to exclude taxable funds from the board ratification requirement. The Institute reiterated its view (which was initially expressed in our comment letter on the SEC's proposal to exclude tax-exempt funds from the ratification requirement) that this requirement imposes a wholly inappropriate function on the board of directors, regardless of whether the fund is taxable or tax- exempt. We commented that the appropriate role of the board is to provide policy guidance and oversee the operations of the fund; it is not to engage in the day-to-day operations of the fund or to provide technical expertise. In addition, the Institute reiterated that the ratification requirement could produce unintended collateral results. For example, funds could be dissuaded from purchasing unrated and single-rated securities to avoid any liability to which the board could be exposed. Finally, the Institute commented that the SEC should be less concerned about eliminating the ratification requirement for taxable funds, since these funds purchase significantly less unrated and single-rated securities than tax-exempt funds. Therefore, if the SEC were willing to exempt tax-exempt funds from the requirement, it should be willing to do so for taxable funds. The Institute believes that the industry will have a greater impact with respect to this issue if the SEC receives letters from individual fund groups. Therefore, we encourage members to submit their own letters urging the SEC to exempt taxable money market funds from the board ratification requirement. While there is no deadline for comments, we recommend that letters be filed as soon as possible. A copy of the Institute's letter is attached. We will keep you informed of developments. Amy B.R. Lancellotta Assistant General Counsel Attachment

should not be considered a substitute for, legal advice.