

MEMO# 4846

June 4, 1993

SEC STAFF LETTER ON THE PUT DIVERSIFICATION REQUIREMENTS OF RULE 2A-7

June 4, 1993 TO: SEC RULES MEMBERS NO. 50-93 MONEY MARKET FUNDS AD HOC COMMITTEE NO. 4-93 RE: SEC STAFF LETTER ON THE PUT DIVERSIFICATION REQUIREMENTS OF RULE 2a-7 _____ The Division of Investment Management issued the attached letter providing interpretive guidance regarding the application of the put diversification requirements contained in paragraphs (c)(4)(ii) and (iii) of Rule 2a-7 under the Investment Company Act to tax-exempt money market funds. In its letter, the staff responded to four specific questions relating to these requirements. The staff's responses are summarized below. First, the staff stated that a money market fund may not disregard an unconditional put for purposes of compliance with the put diversification requirements of the Rule, even if the issuer of the underlying security is of such creditworthiness that the security itself would be an "Eligible Security" under Rule 2a-7. Second, the staff clarified that the put diversification requirements of Rule 2a-7 apply to all money market funds, including tax-exempt money market funds that are not diversified under 5(b) of the 1940 Act. Third, the staff stated that if more than 10% of a fund's assets are invested in securities issued by or subject to an unconditional put from the same institution, thereby exceeding the 10% threshold of paragraph (c)(4)(iii)(C) of Rule 2a-7, the puts must be included in the fund's "25% put basket" (i.e., that portion of the fund's assets not subject to the diversification requirement of paragraph (c)(4)(ii), which requires that with respect to 75% of a tax-exempt money market fund's assets, no more than 5% may be invested in securities issued by or subject to puts from the same institution). In addition, if the fund holds itself out as a diversified fund, it still would be required to meet the diversification criteria under Section 5(b)(1) of the 1940 Act. Finally, the staff responded that a fund does not have to aggregate unconditional puts with conditional puts issued by a single institution for purposes of the put diversification requirements of Rule 2a-7. Amy B.R. Lancellotta Associate Counsel Attachment