

MEMO# 3852

June 15, 1992

MARYLAND LEGISLATION ENACTED PERMITTING FUNDS TO REDEEM SMALL ACCOUNTS

June 15, 1992 TO: STATE SECURITIES MEMBERS NO. 31-92 OPERATIONS MEMBERS NO. 22-92 TRANSFER AGENT ADVISORY COMMITTEE NO. 31-92 RE: MARYLAND LEGISLATION ENACTED PERMITTING FUNDS TO REDEEM SMALL ACCOUNTS

_____ House Bill 842 was signed by the Governor on May 27, 1992 which authorizes the redemption of a shareholder's account valued at \$500 or less provided that written notice is given to the shareholder. The bill also sets forth a procedure for a shareholder to object to the redemption if he or she wishes to maintain the account at an under \$500 level. Please note that Section 2-310(1)(B) of the bill provides that "[t]he price to be paid for the shares redeemed ... shall be the aggregate net asset value of the shares at the close of business on the date of the redemption or the date of the notice, whichever is greater" (emphasis added). The underlined language, directly conflicts with Rule 22c-1 of the Investment Company Act of 1940 which prohibits a mutual fund from selling or redeeming any security except at a price based upon the current net asset value of the security which is calculated after the receipt of a tender of the security or of an order to purchase or sell the security. In an April 23rd letter to the Governor, the Attorney General explained that under federal law an investment company is required to redeem shares of a mutual fund at a price based on the date of redemption; thus, funds complying with Section 2- 310.(1)(B) would violate federal law. However, if the provision in conflict with federal law is severed, the remainder of the bill may be given effect. It is our understanding that the language "or the date of the notice, whichever is greater" will be considered severed from House Bill 842. * * * A copy of House Bill 842 and the Attorney General's letter is attached. We will keep you advised of developments. Patricia Louie Assistant Counsel Attachments