

**MEMO# 15327**

November 4, 2002

## **ICI COMMENT LETTER ON NFMA DRAFT RECOMMENDED BEST PRACTICES IN DISCLOSURE FOR VARIABLE RATE AND SHORT-TERM SECURITIES**

[15327] November 4, 2002 TO: FIXED-INCOME ADVISORY COMMITTEE No. 12-02 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 6-02 RE: ICI COMMENT LETTER ON NFMA DRAFT RECOMMENDED BEST PRACTICES IN DISCLOSURE FOR VARIABLE RATE AND SHORT-TERM SECURITIES As we previously reported to you, earlier this year, the National Federation of Municipal Analysts ("NFMA") released its Draft Recommended Best Practices in Disclosure for Variable Rate and Short-Term Securities ("Draft Paper").<sup>1</sup> The Institute recently submitted a comment letter on the Draft Paper, a copy of which is attached, and it is summarized below. The Institute's comment letter supports the Draft Paper and the NFMA's efforts to improve the level of disclosure in the municipal securities market. The letter discusses the importance of Rule 2a-7 under the Investment Company Act of 1940, and recommends that the NFMA insert in the Draft Paper an appendix that outlines the main requirements of the rule. The letter explains that a better understanding of Rule 2a-7 would provide issuers greater access to short-term funding, since transactions that are structured in accordance with the provisions of the rule will enable money market funds to better evaluate, analyze, and consequently purchase, that issuer's securities. The Institute's letter then focuses on the needs of money market funds with respect to variable rate securities<sup>2</sup> and makes several recommendations in various sections of the Draft Paper, including: (1) General Items – Official Statement Disclosure; (2) Securities Enhanced by a Letter of Credit; (3) Securities with Conditional Demand Features; and (4) Unenhanced Securities with Self Liquidity. Barry E. Simmons Associate Counsel Attachment (in .pdf format) 1 See Memorandum to Fixed Income Advisory Committee No. 9-02, and Memorandum to Money Market Funds Advisory Committee No. 3-02, dated May 29, 2002. The Draft Paper is available from NFMA's website at [www.nfma.org](http://www.nfma.org). 2 Variable rate securities include variable rate demand notes ("VRDNs"), bonds in term mode ("put bonds"), and commercial paper.