

MEMO# 1906

May 9, 1990

SEC LETTER CONCERNING MONEY MARKET FUNDS

May 9, 1990 TO: SEC RULES MEMBERS NO. 36-90 RE: SEC LETTER CONCERNING MONEY MARKET FUNDS _____ Attached is a copy of the letter from the Division of Investment Management to the investment company industry concerning the credit analysis of money market fund portfolio securities. In the letter, Kathryn McGrath reiterates the duty of the board of directors under Rule 2a-7 to undergo a two-part analysis of the money market instruments that may be purchased by the fund. First, the board must determine that the security presents a minimal credit risk and, second, that the security has received a rating of "high quality" or, if the security is unrated, that it is of comparable quality. With respect to the board's determination that the security presents a minimal credit risks, the letter states that a board can only make this determination based upon an analysis of the issuer's capacity to repay its short-term debt and includes examples of such an analysis. The letter also addresses which securities should be deemed unrated for purposes of the rule and discusses the additional determination that a board must make with respect to unrated securities. Amy B. Rosenblum Assistant General Counsel Attachment

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