INVESTMENT COMPANY INSTITUTE

**MEMO# 1589**

December 13, 1989

# SEC STAFF RESPONSE TO INSTITUTE LETTER ON MONEY MARKET FUNDS

December 13, 1989 TO: BOARD OF GOVERNORS NO. 75-89 MONEY MARKET FUND CHIEF EXECUTIVE OFFICERS NO. 11-89 SEC RULES COMMITTEE NO. 76-89 RE: SEC STAFF RESPONSE TO INSTITUTE LETTER ON MONEY MARKET FUNDS ____________________________________________________________ Attached is a copy of the response of the SEC staff to the Institute's letter concerning the quality standards applicable to money market instruments. (See Memorandum to Board of Governors No. 70-89, SEC Rules Committee No. 70-89 and Money Market Fund Chief Executive Officers No. 9-89, dated November 10, 1989.) In her response, Kathryn McGrath reiterated that Rule 2a-7 requires the board to undergo a two-part analysis of the money market instruments which may be purchased by the fund. Specifically, Mrs. McGrath noted that the instrument must be one which (1) the board has determined presents a minimal credit risk to the fund and (2) is rated "high quality" by a major rating service or, if the security is unrated, is determined by the board to be of comparable quality. While Mrs. McGrath agreed with the Institute's position that Rule 2a-7 did not need to be amended, she did not believe that it was necessary for the Commission to issue an interpretive release on the fund's obligation to determine and monitor credit risk, as suggested by the Institute. The letter states that such a release is not necessary since the rule is clear about the fund's obligations and, thus, there is nothing to interpret. Finally, the letter states that the Office of Disclosure and Adviser Regulation will be evaluating the Institute's recommendation to amend the Guidelines to Form N-1A to require (1) certain disclosures concerning the credit analysis undertaken by or on behalf of the fund and (2) that funds which purchase certain instruments be required to include language in their prospectuses disclosing this fact and any associated risks. We will keep you informed of further developments. Amy B. Rosenblum Assistant General Counsel Attachment