

MEMO# 6313

October 19, 1994

DRAFT MUTUAL FUND INTERNAL COMPLIANCE RULE AND POSITION PAPER

October 19, 1994 TO: SEC RULES COMMITTEE NO. 112-94 RE: DRAFT MUTUAL FUND INTERNAL COMPLIANCE RULE AND POSITION PAPER

Enclosed for your review and comment is a draft submission to the SEC proposing a new rule to require each registered management investment company to establish an internal compliance system that meets certain minimum requirements. Our submission consists of a draft rule and a position paper in support of the rule proposal. We plan to discuss the draft submissions at the Committee meeting on October 25. If you cannot attend the meeting, comments should be submitted to the undersigned at 202/326-5834 (fax: 202/326-5827) no later than October 28, 1994. The draft submission should be treated as confidential information and not made available to the public. As we discussed at the committee meeting in April, last fall SEC Chairman Levitt requested the Institute's views on the best way to promote greater self-regulation in the mutual fund industry. On November 19, the Institute submitted a letter to Chairman Levitt suggesting that an SEC-mandated internal compliance system is the best way to ensure compliance with regulatory standards. In January, the SEC asked the Institute to prepare a detailed submission setting forth the industry's views on the appropriate scope of an internal compliance rule. In response to the SEC's request, the Institute formed a working group on mutual fund internal compliance earlier this year to develop our proposal. As you review the enclosed materials, please note that the draft position paper emphasizes that industry support for an internal compliance rule is contingent on the reasonableness of the obligations imposed on the industry. In particular, our submission notes that a) the industry opposes the imposition of uniform compliance policies and procedures; b) an internal compliance system cannot be expected to provide absolute assurance that violations will not occur; c) the rule should not create new litigation risks for those who act in a reasonable manner; and d) the SEC should commit to use its best efforts to preserve the confidentiality of any compliance documents supplied to the Commission. Angela C. Goelzer Associate Counsel cc: Mutual Fund Internal Compliance Working Group