

MEMO# 7262

September 13, 1995

SEC PROPOSES AMENDMENTS TO RULE 17J-1 UNDER THE INVESTMENT COMPANY ACT AND RULE 204-2 UNDER THE INVESTMENT ADVISERS ACT

September 13, 1995 TO: CLOSED-END FUND COMMITTEE No. 45-95 COMPLIANCE COMMITTEE No. 33-95 INVESTMENT ADVISERS COMMITTEE No. 37-95 SEC RULES COMMITTEE No. 101-95 UNIT INVESTMENT TRUST COMMITTEE No. 70-95 RE: SEC PROPOSES AMENDMENTS TO RULE 17j-1 UNDER THE INVESTMENT COMPANY ACT AND RULE 204-2 UNDER THE INVESTMENT ADVISERS ACT

The Securities and Exchange Commission recently proposed amendments to Rule 17j-1 under the Investment Company Act of 1940, which imposes requirements to address potential conflicts of interest arising from personal securities investing by investment company personnel. We are pleased to report that the Commissions proposed amendments are based on, or generally consistent with, the Institutes recommendations concerning personal investing by investment company personnel. The Commission also is proposing certain conforming changes to the recordkeeping provisions applicable to investment advisers in Rule 204-2 under the Investment Advisers Act of 1940. A copy of the Commissions proposing release is attached. The comment period for the proposal ends 60 days from Federal Register publication. Please provide your comments on the proposed amendments to me (at 202/326-5819) by Friday, September 29, 1995. The proposed amendments are designed to improve the regulation of personal investment activities in three respects. First, the proposals are designed to improve the oversight of personal investment activities by requiring: investment company boards of directors (including a majority of the disinterested directors) to approve the investment companys code of ethics and review the codes of the investment adviser and principal underwriter; the principal underwriter or depositor of a unit investment trust to perform these responsibilities with respect to the UIT; investment company boards to obtain a certification from the investment adviser and principal underwriter that they have adopted procedures reasonably necessary to prevent violations of their codes; investment companies (other than UITs) and their investment advisers and principal underwriters, at least annually, to provide the investment company board of directors with a report concerning operation of the codes of ethics during the previous year and to certify the adoption of procedures reasonably necessary to prevent code violations; and access persons to provide their employer with information about securities owned by them when they become access persons. Second, the proposed amendments are designed to provide the public with additional information about investment company policies concerning personal investment activities. The investment companys prospectus would

have to disclose whether the investment company, investment adviser, and principal underwriter permit their personnel to invest in securities, including securities that may be purchased or held by the investment company. The investment company also would have to file with the Commission copies of all codes of ethics applicable to the investment company as exhibits to its registration statement. Third, the amendments are designed to tailor the rule to make its scope more consistent with its purpose. Specifically, the proposed amendments would: clarify that transactions involving certain securities related to those in which an investment company invests are subject to the rules antifraud provisions; specify that money market funds and money market instruments are not subject to the requirements for codes of ethics and transaction reporting; and clarify the meaning of "beneficial ownership" for purposes of the reporting requirements. Thomas M. Selman
Associate Counsel Attachment

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