

MEMO# 16777

November 18, 2003

INFORMATION TO ASSIST COMPLIANCE WITH THE SEC LETTER REGARDING CERTAIN GOVERNMENT-SPONSORED ENTERPRISES

[16777] November 18, 2003 TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 59-03 COMPLIANCE ADVISORY COMMITTEE No. 98-03 SEC RULES COMMITTEE No. 91-03 UNIT INVESTMENT TRUST COMMITTEE No. 21-03 RE: INFORMATION TO ASSIST COMPLIANCE WITH THE SEC LETTER REGARDING CERTAIN GOVERNMENT-SPONSORED ENTERPRISES Last month, the SEC's Division of Investment Management sent a letter to the Institute regarding the staff's views on disclosures made by funds that invest in securities issued by government-sponsored enterprises (GSEs).¹ In the letter, the staff expressed concern that investors in mutual funds that invest in debt and mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation ("Freddie Mac") and similar GSEs, such as the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Banks ("FHLBs"), may not realize that their funds are invested in these securities and that they are not issued or guaranteed by the U.S. government. The letter expressed the staff's view that funds that invest in such securities should prominently disclose that fact in their prospectuses (as opposed to the Statement of Additional Information) including that such investments are neither issued nor guaranteed by the U.S. Treasury. At a recent meeting of the Institute's Compliance Advisory Committee, the Institute offered to circulate information that would help members identify GSE securities and some of their specific characteristics. In a recently published book, we have located a chart that contains information on the federal status of U.S. Government agency securities.² The chart is also available at <http://www.swlearning.com/finance/koch/bank5e/powerpoint/ch19.ppt>, at slide 43. Barry E. Simmons Associate Counsel 1 See Institute Memorandum to Closed-End Investment Company Members No. 81-03, SEC Rules Members No. 143-03, and Unit Investment Trust Members No. 37-03 [16684], dated October 17, 2003. 2 See TIMOTHY W. KOCH and S. SCOTT MACDONALD, *BANK MANAGEMENT* (South-Western, 5th ed. 2003), at ch. 19.