

MEMO# 4236

November 6, 1992

SEC STAFF LETTER ON TECHNICAL ISSUES UNDER RULE 2A-7

November 6, 1992 TO: SEC RULES MEMBERS NO. 58-92 MONEY MARKET FUNDS AD HOC
COMMITTEE NO. 9-92 RE: SEC STAFF LETTER ON TECHNICAL ISSUES UNDER RULE 2a-7

In response to a request by the Institute, the Division of Investment Management issued a letter clarifying a technical issue under Rule 2a-7 under the Investment Company Act, which governs the regulation of money market funds. Copies of the Institute's letter and the staff's response are attached. In its response, the staff clarified the treatment and analysis under Rule 2a-7 of securities subject to guarantees or other forms of unconditional credit support provided by issuers that themselves have outstanding short-term debt. In analyzing the application of Rule 2a-7 to five different scenarios involving such securities, the staff concluded that in determining the status of these securities under the Rule, a fund could rely on the ratings of the outstanding short-term debt of the issuer of the unconditional credit support or could disregard the existence of the credit support and treat the security as unrated. Amy B.R. Lancellotta Associate Counsel Attachments

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