INVESTMENT COMPANY INSTITUTE

MEMO# 2271

October 23, 1990

INSTITUTE COMMENTS ON SEC RELEASE REGARDING REFORM OF REGULATION OF INVESTMENT COMPANIES

October 23, 1990 TO: CLOSED-END FUND COMMITTEE NO. 24-90 RE: INSTITUTE COMMENTS ON SEC RELEASE REGARDING REFORM OF REGULATION OF INVESTMENT COMPANIES - HYBRID FUNDS PROPOSAL ____ Two years ago, as part of its 1990s project, the Institute began a study to consider changes needed to modernize the structure and regulation of investment companies. In connection with this effort, an Institute Ad Hoc Committee on the 1990s met approximately 6 times over the past two years to consider various recommendations for regulatory reform. Last spring, the SEC began its own study of investment company regulation reform. An SEC concept release soliciting public comment on this subject was issued in June. The Institute filed comments on the SEC's concept release on October 5. The recommendations made in the comment letter represent a broad consensus within the industry, since the letter was approved at a meeting of the Ad Hoc Committee attended by members representing approximately 60 percent of industry assets, including a representative of the closed-end funds, and by the Board of Governors at its meeting on October 4th. One of the recommendations in the Institute's comment letter is to amend the 1940 Act to remove the current rigid open- end/closed-end dichotomy so as to permit funds to redeem on a periodic basis. Attached are the relevant pages from the letter. Other commenters on the SEC concept release, including Prudential Mutual Fund Management, The Putnam Management Company, the ACLI, the City of New York Bar Association, the Federal Securities Regulation Committee of the Los Angeles County Bar Association, and several law firms, also recommended that hybrid funds be permitted. This recommendation was discussed at the Closed-End Fund Committee meeting in May. In addition, several closed-end fund members discussed a draft of the Institute's comment letter and did not, at that time, object to this recommendation. However, prior to the October 4th Board meeting, several closed-end fund members that do not have distribution channels in place expressed concern that such a change could be harmful to these funds. The concerns expressed were that if a closed-end fund that is trading at a discount could offer periodic redemptions but did not do so in an effort to reduce the discount, the fund could become a likely target for a takeover. Thus, all closed-end funds could be forced to offer periodic redemptions. This concern was raised again at the Institute's Board of Governors meeting and, after discussion, three Governors, who are also members of the Closed- End Fund Divisional Committee, voted against the recommendation regarding hybrid funds in the Institute's comment letter. We request that you discuss this recommendation internally and submit to me in writing by November 2nd your firm's position on the recommendation. If you do not support the recommendation, it would be helpful if you could send us any suggestions for modifying the recommendation to alleviate the concerns expressed by certain closed-end funds. Amy B. Rosenblum Assistant General Counsel Attachment

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