The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

MEMO# 8013

June 28, 1996

SENATE APPROVES LEGISLATION TO RATIONALIZE MUTUAL FUND REGULATION

1 See Memorandum to Board of Governors No 31-96, Federal Legislation Members No. 9-96, Members -One Per Complex No. 51-96, Public Information Committee No. 26-96, SEC Rules Committee No. 63-96, and State Liaison Committee No. 18-96, dated June 19, 1996. June 28, 1996 TO: BOARD OF GOVERNORS No. 35-96 FEDERAL LEGISLATION MEMBERS No. 11-96 MEMBERS - ONE PER COMPLEX No. 54-96 PUBLIC INFORMATION COMMITTEE No. 29-96 SEC RULES COMMITTEE No. 67-96 STATE LIAISON COMMITTEE No. 19-96 RE: SENATE APPROVES LEGISLATION TO RATIONALIZE MUTUAL FUND REGULATION

_____ I am pleased to report that last night, the Senate approved S. 1815, the "Securities Investment Promotion Act of 1996," by unanimous consent. This historic new legislation would reallocate responsibilities between the federal and state governments in the regulation of mutual funds and investment advisers. The continued successful action on this legislation is a testament to the work of many Institute members. The bill now awaits action by a Senate-House Conference, where we expect differences with companion legislation in the House of Representatives to be reconciled. (On June 19, the House of Representatives passed H.R. 3005, "the Securities Amendments of 1996," by a vote of 407 to 8.)1 Any companion bill approved by the Conference then will be sent back to the House and the Senate for what should be routine approval and, subsequent to that, forwarded to the President for his signature. Like its House counterpart, S. 1815 would eliminate state registration of mutual funds, eliminate state review of fund prospectuses and sales literature, and preclude states from imposing merit standards on funds. States would continue to be able to require funds to make notice filings, to assess fees and to bring antifraud actions. The Senate bill, however, is more comprehensive than its House counterpart in that it also would fashion a more rational allocation of regulatory responsibility over investment advisers by vesting regulation of smaller advisers exclusively at the state level and regulation of larger advisers ($25 million or more in assets under management) exclusively with the SEC. One of the more significant differences between the House and Senate bills concerns their treatment of investment pools sold exclusively to "Qualified Purchasers." Both bills exempt these pools from regulation under the Investment Company Act of 1940. They differ, however, in the dollar threshold requirement needed to deem an individual or an institution a "Qualified Purchaser." In the House bill, the limit is $10 million in "securities" owned by individuals and $100 million in "securities" owned by institutions. In the Senate bill, the limit is $5 million in "investments" owned by individuals and $25 million in "investments" owned by institutions, and the SEC is given discretion to lower these thresholds. The House bill does not provide the SEC with this authority. We will keep you informed as these bills move forward. For

those members with access privileges, this memo can be found on ICINet. Matthew P. Fink President

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