

**MEMO# 2991**

August 7, 1991

## **AUGUST 6 MEETING CONCERNING DEMAND FEATURES**

August 7, 1991 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 21-91 RE: AUGUST 6 MEETING CONCERNING DEMAND FEATURES

As you know, the Money Market Fund Ad Hoc Committee met on August 6th to discuss the regulation of demand features under Rule 2a-7. (See Memorandum to Money Market Funds Ad Hoc Committee No. 20-91, dated July 25, 1991.) The purpose of the meeting was to discuss whether any modifications to the provisions of the Rule governing demand features should be considered in light of the recent Mutual Benefit Life incident. At the meeting, the Committee discussed a number of suggested changes, including (1) requiring that the put provider be independent from the issuer and/or the guarantor of the underlying security; (2) modifying the diversification requirements applicable to guarantees of securities, which currently allow ten percent of a fund's portfolio to be guaranteed by a single institution; and (3) requiring that the underlying security be of eligible quality under the Rule. The Committee decided that the only change that should be considered would be to limit the percentage of a fund's assets that may be invested in securities guaranteed by an institution that is affiliated with the issuer of the underlying security. Specifically, instead of allowing a fund to invest up to ten percent of its assets in securities guaranteed by an institution affiliated with the issuer of the underlying security, as currently permitted, a fund would be limited to investing only up to five percent of its assets in such securities. The Institute will not be suggesting this modification to the SEC staff at this time. Instead, we will likely include it in our comment letter when the SEC proposes changes to the regulation of tax-exempt money market funds for public comment, which we understand the staff is currently developing. Please feel free to call me if you have any questions or comments relating to the above. Amy B.R. Lancellotta Assistant General Counsel