

MEMO# 3728

April 23, 1992

SEC ISSUES STAFF REPORT ON HUB AND SPOKE FUNDS

April 23, 1992 TO: STATE LIAISON COMMITTEE NO. 16-92 RE: SEC ISSUES STAFF REPORT ON HUB AND SPOKE FUNDS _____ As we previously advised you, Representative John D. Dingell, Chairman of the U.S. House Committee on Energy and Commerce requested the SEC staff to prepare a report on the issues hub and spoke funds raise under the federal securities laws and what the the SEC is doing to ensure that investors are adequately protected. (See Memorandum to State Liaison Committee No. 13-92, dated April 3, 1992.) On April 15, 1992, the SEC submitted the attached report to Chairman Dingell. The report notes that these funds are excluded from the fund of funds restrictions in the Investment Company Act of 1940 by virtue of Section 12(d)(1)(E) which permits certain investment companies to register exclusively in the securities of another investment company. Moreover, at the present time, hub and spoke funds do not raise concerns regarding complex pyramidal structures, layering of fees or the threat of large scale redemptions. The report includes a discussion of the organizational structure of hub and spoke funds, how such are regulated on the federal level and the disclosure required to be included in a spoke fund prospectus. The report notes that the Division of Investment Management's review of hub and spoke arrangements have focused primarily upon the following three areas of concern: (1) whether the hub and spoke structure creates additional risks of investment beyond those associated with investment in a single tier fund; (2) whether the information regarding these arrangements in a fund's prospectus is adequate, and (3) whether the hub and spoke structure deprives investors of any rights they would otherwise have as investors in a single tier mutual fund under the 1940 Act or the Securities Act of 1933. Based upon the Division treating hub and spoke funds, to a great extent, as functionally one combined entity, the Division believes that investors enjoy all the protections of the 1933 and 1940 Act that they would have as investors in a traditional mutual fund. We will keep you advised of developments. Patricia Louie Assistant General Counsel Attachment