

MEMO# 4229

November 4, 1992

CODES OF ETHICS; CHINESE WALL PROCEDURES

November 4, 1992 TO: COMPLIANCE COMMITTEE NO. 22-92 RE: CODES OF ETHICS; CHINESE WALL PROCEDURES

Codes of Ethics At the October 29 meeting of the Compliance Committee, we discussed several recent cases that had been brought against mutual fund portfolio managers for improper personal securities transactions (see Memoranda to Compliance Committee Nos. 5-92 and 6-92, dated June 17 and June 22, 1992, respectively) and whether there were any steps that could be taken to prevent similar future violations. One suggestion that was made was for the Institute to circulate to the Committee a copy of its drafting guide for codes of ethics, which was prepared in 1981 when Rule 17j-1 under the 1940 Act became effective, and to request that members compare their codes with the drafting guide and advise us of requirements or procedures that are included in their codes that are not included in the drafting guide (including changes made in response to these cases, such as requiring reports on the receipt of gratuities). The Institute would then compile a list of these items and circulate them so that members could consider adding them to their codes as appropriate. Please provide either Frances Stadler or me with any such requirements or procedures included in your firms' codes of ethics by November 20, 1992. Frances can be reached at 202/955- 3514 and my direct number is 202/955-3523. Our fax number is 202/659-1519. "Chinese Wall" Procedures A separate item that was discussed at the meeting concerned the implementation of "Chinese Wall" procedures to prevent the misuse of inside information that employees of fund advisers may obtain about issuers of securities in which the funds may trade. The SEC staff and certain members of Congress have expressed concern that employees who are exposed to inside information are not being adequately isolated to prevent the misuse of that information. For example, a portfolio manager or employees who have contact with a portfolio manager may serve on creditors committees and, in that capacity, may receive inside information about an issuer. At the meeting, it was decided that it was not advisable at this time for the Institute to develop guidelines for drafting "Chinese Wall" procedures. Among other things, members felt that any such guidelines would have to be so general to take into consideration the diverse sizes, organizational structures and practices of members and the different circumstances in which employees could receive inside information that they might not be useful. Instead, we asked whether any members who had written "Chinese Wall" procedures in place would be willing to share them with the other members of the Committee (of course, with the firm's name blacked out) to assist them in preparing their own procedures. If you are willing to do so, please send us a copy of your procedures by November 27, 1992, and we will circulate them to the Committee. We also announced at the meeting that the Institute is considering forming a Subcommittee on creditors' rights issues relating to investment companies to give members an opportunity to exchange views on these issues, and, if

appropriate, to work on projects that may be useful in addressing them. If you interested in participating on the Subcommittee, please contact Michael Branch at 202/955-3524 by November 11, 1992. Amy B.R. Lancellotta Associate Counsel Attachment

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