MEMO# 5218

October 8, 1993

MUTUAL FUNDS' USE OF DERIVATIVE SECURITIES

October 8, 1993 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 32-93 RE: MUTUAL FUNDS' USE OF DERIVATIVE SECURITIES ____ As you know, the proliferation and use of derivative securities has been the focus of significant media attention recently. As a result, the Institute is receiving inquiries from governmental and other sources regarding the extent and nature of mutual funds' use of derivative securities. In order to respond to these inquiries and address regulatory concerns, the Institute is surveying the Accounting/Treasurers Committee to determine the extent to which fund assets are invested in these types of securities. Please complete the attached survey for each open-end fund in your complex that held derivative securities as of the fund's most recent annual or semi-annual report. Do not complete the survey for money market funds or funds that held no derivative securities. Please note that the term derivative securities is defined for purposes of this survey as those instruments (or categories of instruments) that are included in the questionnaire. We are excluding VRDNs, Mortgage Backed Securities (including CMOs) and other similar securities. Please make additional copies of the survey as needed for each open-end fund that held derivative securities. Your responses will be confidential and would be released only as part of aggregate industry totals. Please return the completed surveys to the Institute no later than October 29, 1993. Please send your completed survey to Anne Schafer either by mail or fax (202/293-7016). If you have any questions please call Greg Smith at 202/955-6232. In the attached survey, please enter both the market value and the notional or principal amount for each category of derivative security held by the fund as of the fund's last annual or semi-annual reporting date. For example, assume the fund held 5 December 45 calls on IBM priced at 4 1/2 per option contract. The Market Value would be the option premium multiplied by the number of contracts multiplied by the number of shares per contract (4 1/2 x 5 x 100 = $2,250). The Notional or Principal Amount would be the strike price multiplied by the number of contracts multiplied by the number of shares per contract (45 x 5 x 100 = $22,500). For futures contracts, enter the net receivable (or payable) in the Market Value column and enter the aggregate face value of the contracts under the Notional or Principal Amount column. For example, assume the fund purchased 10 S&P 500 December futures contracts at 450 and the current price is 458. The Market Value would be the current market price minus the original purchase price multiplied by the number of contracts multiplied by the index multiplier (458 - 450 x 10 x 500 = $40,000). The Notional or Principal Amount would be the current market price multiplied by the number of contracts multiplied by the index multiplier (458 x 10 x 500 = $2,290,000). Your prompt attention to this matter is appreciated. Donald J. Boteler Vice President - Operations