

MEMO# 3279

November 25, 1991

INSTITUTE MEETING WITH SEC STAFF CONCERNING INVERSE FLOATERS

November 25, 1991 TO: MONEY MARKET FUNDS AD HOC COMMITTEE NO. 29-91 RE:
INSTITUTE MEETING WITH SEC STAFF CONCERNING INVERSE FLOATERS

At the November 6 meeting of the ad hoc committee, it was decided that the Institute should discuss with the SEC staff the concerns that were expressed by members of the committee about the appropriateness of inverse floaters for funds that seek to maintain a stable net asset value. On Monday, November 18, several representatives of the Institute met with members of the staff of the Division of Investment Management to discuss, among other things, inverse floaters. At that meeting, the SEC staff also expressed concerns about money market funds purchasing inverse floaters. The staff focused on the fact that the duration of these instruments typically exceeds their stated maturity, as well as the maturity limitations under Rule 2a-7, thereby increasing their market risk. The staff stated that Rule 2a-7 was not intended to permit the purchase of these instruments, since one of the primary objectives of the Rule was to reduce interest rate risk. While the SEC staff members did not explicitly state that they were planning to take any action to prohibit inverse floaters under Rule 2a-7, it did appear that they were considering doing so in the near future. We will keep you informed of developments. Amy B.R. Lancellotta Associate General Counsel

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.