

**MEMO# 6343**

October 31, 1994

# **MUTUAL FUND INTERNAL COMPLIANCE RULE**

October 31, 1994 TO: SEC RULES COMMITTEE NO. 115-94 RE: MUTUAL FUND INTERNAL COMPLIANCE RULE \_\_\_\_\_ Attached for your immediate review and comment is a revised draft of the Institute's proposed mutual fund internal compliance rule. As discussed at the Committee meeting on October 25th, the proposed rule has been revised substantially to grant the board of directors explicit authority to delegate the selection of compliance officials to the fund's adviser, principal underwriter, or administrator. Among other things, our revisions also would: a) require that a copy of the compliance policies and procedures and board reports be preserved for five years rather than permanently; b) eliminate the requirement that each fund consider periodically whether to obtain independent testing of the policies and procedures (this is now located in a note to the rule); c) amend paragraph (b)(2)(ii) to provide that the report to the board need only discuss compliance matters requiring significant remedial action; and d) eliminate the definition of "reasonably designed," in light of a comment received that the proposed definition established an unnecessarily high standard. In lieu of a definition, our position paper would set forth our views on the appropriate interpretation of "reasonably designed" for purposes of the rule. Please contact the undersigned by COB November 4, 1994 with any comments you may have on the revised proposed rule. I can be reached at 202/326-5834 or by fax at 202/326-5827. Angela C. Goelzer Associate Counsel  
cc: Mutual Fund Internal Compliance Working Group