

MEMO# 2953

July 23, 1991

INSTITUTE LETTER TO SEC STAFF REGARDING RESPONSIBILITIES ASSIGNED TO INVESTMENT COMPANY DIRECTORS

July 23, 1991 TO: SEC RULES COMMITTEE NO. 42-91 RE: INSTITUTE LETTER TO SEC STAFF
REGARDING RESPONSIBILITIES ASSIGNED TO INVESTMENT COMPANY DIRECTORS

The Institute recently submitted to the Division of Investment Management the attached letter suggesting modifications to Rules 17f-5, 17f-4 and 12d3-1 under the Investment Company Act of 1940 because, in our view, those rules impose inappropriate responsibilities on the board of directors of an investment company. The letter follows up on the Institute's May 9, 1991 and July 12, 1991 comment letters to the Securities and Exchange Commission opposing a requirement under Rule 2a-7 that the board of directors of a money market fund approve or ratify the acquisition of any unrated or single-rated security. (See Memorandum to SEC Rules Committee No. 27-91, dated May 13, 1991; Memorandum to SEC Rules Committee No. 39-91, dated July 12, 1991.) The attached letter emphasizes that the Institute does not propose to diminish the role of investment company directors or to change the Commission's approach of relying on board oversight in place of restrictive substantive regulation or a requirement to obtain individual exemptive relief. Rather, the letter attempts to identify for the staff instances in which investment company directors inappropriately have been asked to make determinations that require a high degree of technical expertise or that involve the directors in a fund's day-to-day operations. The letter explains that such requirements, which force investment company directors to stray from their traditional oversight, policy guidance and "watchdog" roles, are impractical and create inefficiencies. As a result, they threaten the board's overall credibility and effectiveness. We will keep you informed of developments. Lawrence A. Rogers Senior Counsel Attachment

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