

MEMO# 1820

April 4, 1990

TESTIMONY IN CALIFORNIA CONCERNING DISCLOSURE PRIOR TO SALES OF MONEY MARKET FUNDS AND OTHER SECURITIES

April 4, 1990 TO: BOARD OF GOVERNORS NO. 22-90 MONEY MARKET MEMBERS - ONE PER COMPLEX NO. 4-90 SEC RULES COMMITTEE NO. 20-90 STATE LIAISON COMMITTEE NO. 7-90 UNIT INVESTMENT TRUST COMMITTEE NO. 15-90 BROKER/DEALER ADVISORY COMMITTEE NO. 14-90 BROKER/DEALER ASSOCIATE MEMBERS NO. 2-90 CALIFORNIA MEMBERS RE: TESTIMONY IN CALIFORNIA CONCERNING DISCLOSURE PRIOR TO SALES OF MONEY MARKET FUNDS AND OTHER SECURITIES _____

The Institute recently testified before the California Senate Bank and Commerce Committee regarding a series of bills introduced in response to the Lincoln Savings and Loan scandal. A copy of the Institute's testimony and the bills are attached. One bill, Senate Bill 2493, would require all broker-dealers to provide prospective purchasers with a disclosure statement prior to the sale or offer of any securities not insured by an agency of the federal or state government. Such disclosure would state that the security is not insured by the FDIC or any other government agency. Prospective purchasers would have to read and initial the statement (to acknowledge having read it) prior to the execution of any contract or receipt of any consideration for the purchase. S.B. 2493 specifically targets "shares or participations in money market funds or local or state government bond funds." The Institute testified that investment companies are extensively regulated at both the federal and state levels, that the disclosure proposed in S.B. 2493 is unnecessary with respect to sales of investment company securities and that such legislation goes beyond what is required to ensure consumer protection. The Institute further testified that the legislation would disrupt the operation and sales practices of investment companies in a manner inconsistent with what is currently required under federal or state law. The Institute also submitted testimony on Senate Bill 2495. This bill would prohibit sales of shares of investment companies and other non-federally insured products in the offices of financial institutions unless prior regulatory approval had been granted and customers sign and receive similar disclosure statements. The Institute testified that the bill was overbroad and that restrictions on bank sales should be limited to sales of securities issued by affiliates of the bank. The Committee is scheduled to vote on the proposed bills April 25, 1990. We will keep you informed of developments. Patricia Louie Assistant General Counsel Attachments